

Draft Statement of Accounts 2006/07

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EXPLANATORY FOREWORD

1. Financial Statements

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Southampton City Council are by their nature both technical and complex. Consequently this foreword explains some of the statements and sections included within this document and provides a summary of the authority's financial performance for 2006/07.

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the council is required to produce a set of accounts in order to inform you, as a stakeholder of the council, that we have properly accounted for all the public money we have received and spent and that the financial standing of the council is on a secure basis.

The council's Statement of Accounts concentrates on clear and accurate reporting of the financial position of the council in relation to a particular year. It does not however aim to fulfil the role of an annual report of a company. This would duplicate much of the work already published in other documents produced by the council – in particular the Community Strategy, the Medium Term Service and Financial Plan and the Corporate Improvement Plan.

The statements are:

- *Accounting Policies* p5-13
This statement details the Accounting policies followed by the Authority during 2006/07.
- *Responsibilities for the Statement of Accounts* p14
This statement shows the responsibilities of the Council and the Chief Financial Officer.
- *Income and Expenditure Account* p15
This statement reports the net cost for the year of all the services provided by the Council, including the HRA but excluding the Collection Fund. It demonstrates how the costs have been financed from general government grants and income from local taxpayers.
- *Statement of the Movement on the General Fund Balance* p16-17
The statement brings together the surplus or deficit for the year from the Income and Expenditure Account, plus the net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year. It also shows the balances brought and carried forward.
- *Statement of Total Recognised Gains and Losses* p18
The statement brings together all the gains and losses for the year. It includes the surplus or deficit on the Income and Expenditure Account for the year, the surplus or deficit arising on revaluation of fixed assets, any actuarial gains and losses on pension fund assets and liabilities plus any other gains and losses.
- *Balance Sheet* p19
This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2007.
- *Cash Flow Statement* p20
This summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes.

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- *Housing Revenue Account (HRA)* p46-52
This account summarises the transactions relating to the provision, maintenance and sales of Council houses and flats.
- *Collection Fund* p53-55
The statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.
- *Trust and Other Funds* p56-60
This statement shows receipts and payments of funds for which the Council acts as trustee.

2. Financial Summary

The Statement of Accounts brings together all the financial activities of the Council for the year. It summarises the revenue income and expenditure in providing services and shows how it was financed from sources such as Council Tax, Government Grants and Housing Rents. The statements have been produced in accordance with the Best Value Accounting Code of Practice.

The Council undertakes a number of major one-off capital projects that create an asset that has a life beyond one year. Expenditure on capital projects is financed mainly from a mix of loans, capital receipts, grants and revenue. In addition the Council has three schools built through Private Finance Initiatives (PFI) schemes, (see **page 11**, note 20 for further details).

a) Revenue Expenditure and Income

Revenue expenditure is generally spent on running cost items used during the year, and is paid for by Council Tax, Government Grants, other income and transfers from balances. The table on **page 3** summarises actual expenditure for 2006/07 and compares it against estimated expenditure.

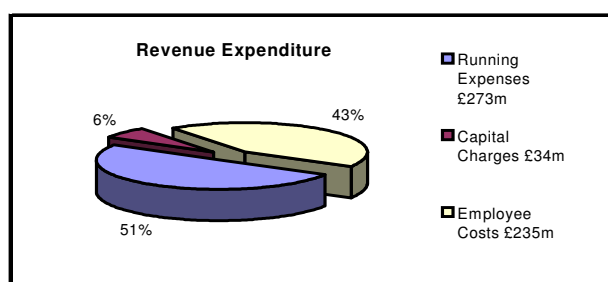
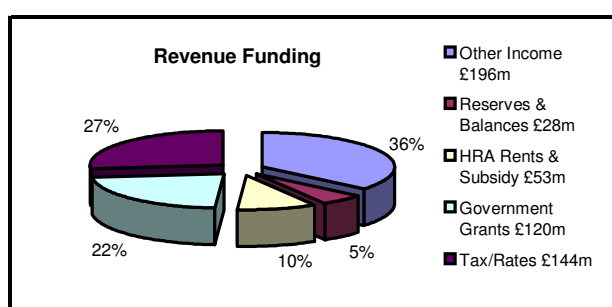
During the year the net operating expenditure of the Council, before transfers to and from reserves, was £186,032k, which compared to an original estimate of £187,985k, gives a favourable variance of £1,953k. After allowing for contributions to the Government Pool for Housing Capital Receipts of £5,315k, which is offset by movements in reserves, actual operating expenses were £7,268k under that expected. Following transfer to and from reserves the net contribution to balances was £247k, compared to the budgeted draw from balances of £2,675k.

The General Fund Reserve as at 31st March 2007 stands at £10,922k and is used as a working balance and to support future spending plans. Further details can be found in the Statement of Movement on the General Fund Balance on **pages 16 & 17**.

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	Original Budget 2006/07 £'000	Actual 2006/07 £'000	Variance 2006/07 £'000
Service Costs	164,228	164,548	320
Notional Pension cost Adjustments	4,650	5,131	481
Net Cost of Services	168,878	169,679	801
Contributions to Other Local Authorities	483	501	18
Contributions of Housing Capital Receipts to Government Pool	0	5,315	5,315
Gains / Losses on Early Settlement of Borrowing	0	(47)	(47)
Interest Payable and similar charges	9,289	3,747	(5,542)
Repayment of Debt	4,673	4,880	207
Interest and Investment Income	(1,808)	(3,302)	(1,494)
Pensions Interest Costs & Expected Return on Assets	6,470	5,259	(1,211)
Net Operating Expenditure	187,985	186,032	(1,953)
Net Contribution to/(from) Earmarked Revenue Reserves	5,827	2,614	(3,213)
Net Contribution to/(from) Capital Reserves	(22,506)	(22,199)	307
Net Contribution to/(from) HRA Balances	(356)	27	383
Net Contribution to/(from) Pension Fund Reserve	(11,120)	(10,390)	730
Amount to be met from Government Grants and Local Taxation	159,830	156,084	(3,746)
General Government Grants	14,271	13,778	(493)
Non - Domestic Rates Redistribution	73,936	73,605	(331)
Demand on Collection Fund	70,892	70,892	0
Transfers to the Collection Fund in respect of Surpluses/Deficits	(1,944)	(1,944)	0
Budget Requirement for year	157,155	156,331	(824)
Net Contribution to/(from) General Fund Reserve	(2,675)	247	2,922

The total amount to be met from Government Grants and Local Taxation reduced from £254,121k in 2005/06 to £156,331k in 2006/07, a reduction of £97,790k due to the transfer of payments in respect of schools from the Revenue Support Grant to a Dedicated Schools Grant, see **page 41** for further details. The following charts show the main sources of Revenue Income and Expenditure.



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Full details of the Income and Expenditure Account can be found on **page 15**.

As a result of the introduction of Financial Reporting Standard 17 (FRS 17 Retirement Benefits), the Council's accounts show a significant shortfall between the forecast cost of future pensions, and the current level of assets built up in the pension fund. As can be seen from the council's balance sheet the level of the pension's deficit at 31st March 2007 has increased by £8,130k from £210,000k to £218,130k. In order to better understand the council's position in respect of pensions this financial information will need to be considered along with the long-term view provided by the triennial actuarial review of the pension fund. The review looks at the long-term expected growth of the pension fund assets and whether, in the future, the assets will cover liabilities. The last review was undertaken in 2004 and concluded that the solvency level of the fund was 68.6%. As a consequence employer's contributions were increased, phased over a three year period. For further information see **pages 36 to 39**.

b) Expenditure on Capital Projects

In 2006/07 the Council spent £54,750k on capital projects (£50,043k net of deferred charges). Some of the major schemes were:

- Highways Improvements
- Expenditure to meet Decent Homes standard
- Special Educational Needs Review
- Improvements to Schools
- Grants to Housing Associations
- Adaptations for Disabled People in Council Housing

Total capital expenditure was £12,063k less than the approved estimates, principally due to slippage on expenditure, which will now be incurred in 2007/08.

The Council used borrowing supported by the Government of £9,693k to finance capital expenditure in the year. The other sources of financing were Capital Grants (£18,673k), Major Repairs Allowance (£12,053k), Capital Receipts (£5,131k), Unsupported Borrowing (£5,212k), Capital Contributions (£2,664k) and Direct Revenue Financing (£1,325k).

A more detailed analysis of capital spending plus sources of finance is shown on **page 27**.

The Council continues to make full use of advantageous lending terms that are offered by the Public Works Loan Board (PWLB) to finance the proportion of its capital programme that is funded through borrowing. In 2006/07 £13 Million was borrowed from the PWLB at an average rate of 4.25%. A more detailed analysis of the Council's borrowing plus sources is shown on **page 31**.

3) Issues

LA SORP 2006 introduced significant changes which have a material effect on the way that the financial statements are presented. These changes are intended to make local government accounts more compliant with UK Generally Accepted Accounting Practice (UK GAAP), i.e. move them more towards accounting conventions adopted in the private sector. The key changes are:

- Removal of the capital financing charge
- The Consolidated Revenue Account (CRA) replaced with the Income and Expenditure Account
- Changes to the HRA Statement
- New Statement of Total Recognised Gains and Losses

ACCOUNTING POLICIES

1. General

The Statement of Accounts summarises the council's transactions for the 2006/07 financial year and its position at the year-end of 31st March 2007. The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A statement of Recommended Practice 2006*, *Best Value Accounting Code of Practice* and FRS18 Accounting Policies, which is based on four particular accounting concepts; 'Going Concern'; 'Accruals'; 'Consistency'; and 'Prudence'. It also has regard for primary legislative requirements.

2. Accrual Accounting

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the relevant goods or services are provided.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as stock on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowing and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

3. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the year. The reserve is then appropriated back to the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Reserves include earmarked balances which represent sums set aside for purposes such as general contingencies and cash flow management.

Capital reserves are not available for revenue purposes and some may only be used for specific statutory purposes. The Fixed Asset Restatement Account, Useable Capital Receipts Reserve and the Capital Financing Account are examples of such.

Transactions for 2006/07 can be seen within the Statement of Reserves **on pages 32 to 35**.

4. Provisions

Provisions are established in accordance with the CIPFA Code of Practice to meet any likely, or certain, loss that will arise. The provisions are created by charges to the respective service account with the actual expenditure, when it arises, being charged directly to the provision.

Provisions are explained in more detail on **page 32**.

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5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, where there is reasonable assurance that the monies will be received and the expenditure for which the grant has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited directly to the Income and Expenditure Account below Net Operating Expenditure.

6. Retirement Benefits

Employees of the council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teacher's Pensions on behalf of the Department for Education and Skills (DFES).
- The Local government Pension Scheme, administered by Hampshire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Hampshire County Council pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees
- Liabilities are discounted to their value at current prices, using discount rate of 3.5% based on the AA corporate bond rate as required by the SORP.
- The assets of the Hampshire County Council pension fund attributable to the council are included in the balance sheet at fair value:
 - quoted securities – mid-market value
 - unquoted securities – professional estimate
 - unitised securities – average of the bid and offer rates
 - property – market value

The change in the net pensions' liability is analysed into seven components:

1. Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.
2. Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs.
3. Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Net Operating Expenditure in the Income and Expenditure Account.

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4. Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
5. Gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs.
6. Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.
7. Contributions paid to Hampshire County Council – cash paid as employer’s contributions to the pension fund.

Statutory provisions limit the council to raising tax to cover the amounts payable by the council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year- end.

As a result of this the overall amount to be met from government grants and local taxation has remained unchanged, but the costs for individual services are £5,131k higher (£3,900k in 2005/06) after the replacement of employer’s contribution by current service costs, and Net Operating Expenditure is £10,390k higher (£9,150k higher in 2005/06) than it would otherwise have been. In addition the requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by £210,000k in 2005/06 and by £218,130k in 2006/07.

For further information please see **pages 36 to 39**.

Discretionary Benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local government Pension Scheme.

7. VAT

All Income and expenditure, whether capital or revenue in nature, excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all Vat paid is recoverable from them.

8. Overheads and Support Services

The current accounting policy for overheads is that all services should bear an equitable proportion of the overheads of the Council. Support Service costs are recharged to services on a variety of bases e.g. Agreed Annual Charge, Time Allocation, Unit Rates which reflect the benefit from the supply or service in accordance with the principles of the CIPFA *Best Value Accounting Code of Practice 2006*. The exceptions to this are :

- Corporate and Democratic Core – costs relating to the council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

ACCOUNTING POLICIES

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Service.

9. Intangible Assets

Intangible fixed assets are defined as “non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal right”. The types of assets normally included within this definition are purchased software. Intangible assets are amortized to service revenue accounts (from the year following acquisition) over their economic lives. These assets are initially recognised in the balance sheet at actual costs incurred

10. Tangible Fixed Assets

Where the Council benefits from an asset for more than one financial year, all expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis and has been recognised in the value of fixed assets in the balance sheet. By definition, this excludes routine repairs and maintenance which are charged directly to service revenue accounts.

Valuation

The basis of valuation is dependent on the type of asset. The categories are:

Operational - Land, property and other assets used for service provision are called ‘operational assets’. Land and property are included in the balance sheet at the Open Market Value for their present use when there is sufficient evidence to support the value, or at Depreciated Replacement Cost. The exception to this rule is Council Houses, which are valued on the “Beacon” method. This involves establishing a value over a range of types and ages of property, which is then applied to the housing stock. An allowance is made for discount on the sale of stock.

Vehicle, plant and equipment are initially held in the balance sheet at actual costs incurred and are amortized to service revenue accounts (from the year following acquisition) over their economic lives.

Non-Operational - These are assets owned by the Council but not used in the direct delivery of services and are occupied by third parties to provide services on the Council’s behalf. They are valued at Open Market Value. For investment properties the asset value is determined by capitalising the rents passing under existing leases at a market rate of interest which reflects the security of the income flow and the potential for increasing it.

Infrastructure and Community Assets - These are included in the balance sheet at historical cost net of depreciation. As recommended by CIPFA the Council’s policy is that assets with a value of less than £10,000 do not attract depreciation charges.

Assets under Construction - Assets are held at the value of capital expenditure to date, until such time as the asset is deemed to require certification by the Valuer.

Surplus Assets, held for Disposal - These are assets that have been marketed for sale, and agreement to buy has been reached.

Assets included in the balance sheet at current value are revalued as a minimum every five years or where there have been material changes in the value. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to

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benefit from their use. Where an asset has major components with different estimated useful lives, these are depreciated separately. Depreciation is calculated on the following bases:

Council Dwellings - The Housing Revenue Account (HRA) has been charged with an amount of depreciation equivalent to the Major Repairs Allowance received from central government. This amount has been calculated as that required to maintain the housing stock in its current condition and central government allows this to be used as proxy for depreciation.

Other Land and Buildings - straight-line basis over the remaining years of the property as estimated by the Valuer.

Vehicles, Plant & Equipment, and Intangible assets - depreciation is applied on a straight-line basis over the useful life of the asset.

Infrastructure – assets are depreciated over 40 years on a straight -line basis.

Community Assets and Investment Properties – these assets are not depreciated.

Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reduction in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- Otherwise – written off against the Fixed Asset Restatement Account.

11. Charges to Revenue

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- Amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement).

12. Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Useable Capital Receipts Reserve, and can only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Financing Account from the Statement of Movements on the General Fund Balance.

The summarised movements of capital receipts are on **page 35**.

13. Leases

a) Operating Leases

Rentals payable under operating leases are charged to revenue on a straight-line basis over the term of the lease. In addition operating lease rentals payable are accounted for net of benefits received or receivable.

b) Finance Leases

Finance leases are leases when substantially all the risks and rewards relating to the leased property transfer to the council. Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property, recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset and the liability being written down as the rent becomes payable, and
- A finance charge (debited to Net Operating Expenditure in the Income & Expenditure Account as rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council has no finance leases in primary rental. All amounts paid are treated as interest, since the principal value of the asset is deemed to have been fully repaid during the primary period.

14. Repurchase of Borrowing – Loan Premiums and Discounts

Gains and losses on the repurchase or early settlement of borrowing are debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue in a straight-line basis over the term of the replacement loans.

The write-off period for the HRA is also on a straight-line basis over the lesser of the unexpired period of the redeemed loan or ten years.

15. Loans and Investment

The Council's borrowing is split between Long Term for loans of one year and longer and Short Term for loans of less than one year. The crucial contrast with a private organisation is that an authority's debt, whether short-term or long-term, is secured, not on its fixed assets, but on its revenues. A lender to a local authority enjoys the security of knowing that in the last resort, the authority would be obliged to raise revenues in order to repay outstanding debts. Investments arise on a short term basis throughout the year as a result of movements in cash flow. These are shown in the accounts at Cost, if the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Income and Expenditure Account if this is unlikely to be a temporary fall.

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16. Deferred Charges

Deferred charges represent capital expenditure that does not result in an asset, such as improvement grants. Expenditure of this nature, where the authority does not gain any economic benefit, is written off to the Revenue Account in the year it occurs, but does not affect the charge to Council Tax as an offsetting appropriation is made from the Capital Financing Account.

17. Government Grants and Contributions (Capital)

Government grants and contributions relating to fixed assets are credited to a government grants deferred account and released to the service revenue account in line with the depreciation of the asset. Where an asset is not depreciated, the grant or contribution is transferred to the Capital Financing Account.

18. Stocks and Work in Progress

Where possible stock and work in progress are valued in accordance with SSAP 9, at the lower of cost or net realisable value. There are two notable exceptions to this rule in the accounts:

- For 2006/07 the Council's Central Stores stock has been valued on an "Average Cost" basis as recommended in SSAP 9.
- Housing Repairs "Schedule of Rates" work is valued at cost plus overheads and profit.

Where there is internal work in progress it has been eliminated when the accounts are consolidated.

19. Regeneration Budgets

Southampton City Council is the Accountable body for the regeneration programmes for the South East England Development Agency (SEEDA) and the Government Office for the South East (GOSE).

The Council is responsible for the successful delivery of the Single Regeneration Budget (SRB) and New Deal for Communities programmes that have been awarded to the City. A Partnership Board of local residents and agencies manages each programme.

The total grant value of these combined programmes amounts to approximately £70 Million, (excluding contributions from Partner Organisations), and is helping to significantly improve the quality-of-life for the residents in the target areas of Outer Shirley and Thornhill.

Community Regeneration's main aims are to build capacity and to deliver benefits to local communities through lifelong learning, access to employment, better community safety, better health and housing improvements.

20. Private Finance Initiatives (PFI) and Similar Contracts

Private Finance Initiatives (PFI) and similar contracts involving Private Finance Transactions (PFT) are accounted for in accordance with the provisions of Application Note F to FRS 5, and also by reference to guidance published by CIPFA. This requires the Council to consider whether it has an asset of any of the properties used or created for the purpose of the PFT. It is considered that the Council does not have an asset of any of the PFT properties and consequently there are no items to be recognised in the Council's balance sheet.

In accordance with relevant guidance, payments to private sector partners under PFT arrangements are shown in "Net Cost of Services" in the Income and Expenditure Account as incurred.

Those assets that have been contributed to such contracts by the authority are accounted for as a deferred consideration, which is charged to the revenue account over the life of the contract. Where assets automatically transfer back to the Council at the end of the contract, any residual value of the assets is accumulated over the life of the contract as a deferred asset.

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The Council is currently involved with two such contracts – PFI schools and Northlands Nursing Home.

Details of undischarged obligations as at 31st March 2007 are detailed on **page 28**.

PFI Schools

A PFI project has been approved by the government to significantly improve the quality of the buildings in three of the City's secondary schools and also to provide additional places in two of them. The works were procured under the PFI whereby a consortium of private sector companies, known as Pyramid Schools (Southampton) Ltd, designed, built, financed and now operate the schools. The contract start date was 29th October 2001 and will terminate on 31 August 2031. The estimated capital value of these schemes is £37 million.

The consortium provides building related services such as cleaning, care-taking and repairs, but teaching and curriculum related staff continue to be employed directly by the Council. The Council started to pay an annual fee to the consortium following the completion of the first school during the 2005/06 financial year. The fee, known as the 'Unitary Charge,' covers both the running costs of the school buildings and the cost of building the schools. All three schools are open.

The cost of the project is being met partly through additional grant from Central Government and partly through existing budgets (either from budgets delegated to the schools concerned or controlled by the Council).

Northlands Nursing Home

The purpose of this Public Private Partnership (PPP) project is to increase the number of nursing care beds within the city and in turn secure under a block contract the Council's accessibility to the beds. The private sector partner for this PPP is BUPA Care Homes Ltd. The Council has agreed to lease the land on which the nursing home has been built to BUPA for nil consideration for the duration of 50 years.

BUPA manage both the property and service provision. The Council is not involved in direct service management or provide any staff. The Council has a block contract for 25 years (from 5th July 2005 to 5th July 2030) to purchase 72 of the 101 beds at the Nursing Home annually. Payment is made monthly to BUPA, based on the 'Unitary Charge', which is the price per bed per week.

The unitary charge includes both the cost of building and maintaining the premises as well as ongoing costs in providing care to the residents. The nursing home was opened in July 2005.

21. Group Accounts and Financial Relationships with Companies

According to the SORP's classification of group accounts relationships with companies, the Council has a 'simple investment' relationship with two companies – Southampton Enterprise Centre Ltd (SECL) and Solent Sustainable Energy Ltd (SSEL). The Council has no financial investment in either company although the Council is entitled to a share of any profits either company may make. The Council has less than 20% representation in each company and does not exercise dominant influence.

The Council's share of SECL's profit in 2006/07 was £36,629.

SSEL had not started trading at 31 March 2007.

The Council will continue to monitor the requirement of group accounts in the light of its relationship with all third party organisations.

22. Trust Funds

The Council is sole trustee of several trust funds. As required by the Statement of Recommended Practice the funds do not represent assets of the Council and have not been included into the Council's Balance Sheet. Details of the Trust Funds can be found on **page 56 to 60**.

ACCOUNTING POLICIES

23. Redemption of debt

In accordance with the requirements of the Local Government Act 2003, the authority is required to set aside a minimum revenue provision (MRP) for repayment of debt. This is based on the Capital Financing Requirement (as defined by the Act) at the end of the preceding financial year. The MRP is charged to revenue by an appropriate increase or decrease in the depreciation charge. This adjustment is made by way of an appropriation to or from the Capital Financing Account.

24. Interest Charges

Interest on loans is charged to the asset management revenue account based on the amount due and payable in the financial year.

25. Exceptional Items, Extraordinary Items & Prior Year Adjustments

Any material exceptional or extraordinary items are included within the cost of the relevant individual service or separately identified on the face of the revenue account. Details of any such items are given in the explanatory notes.

Material prior year adjustments arising from changes in accounting policies or from the correction of fundamental errors have been accounted for by restating the comparative figure in the financial statements and notes, along with the cumulative effect on reserves.

Any effect of material prior period adjustments is disclosed separately as a note to the accounts. Where this is not practicable, the fact that this is so, and the reasons for it have been disclosed.

26. Post Balance Sheet Events

Any material post balance sheet events which provide additional evidence relating to conditions existing at the balance sheet date, or indicates that application of the going concern concept is not appropriate have been included in the accounts. Any material post balance sheet events, which concern conditions that did not exist at the balance sheet date have been disclosed as a separate note to the accounts.

Events after the balance sheet date are included in the accounts up to the date when the Statement of Accounts is authorised for issue. For Southampton City Council this date has been determined as the 29th June 2007.

RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

1. The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council that Officer is the Executive Director of Resources.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve Statement of Accounts.

2. The Chief Financial Officer's Responsibilities

The Council's Chief Financial Officer (CFO) is the Executive Director of Resources. The CFO is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC "Code of Practice on Local Authority Accounting in Great Britain", is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2007.

In preparing this Statement of Accounts the Chief Financial Officer is responsible for:

- Selecting suitable accounting policies and then applying them consistently.
- Making judgements and estimates that are reasonable and prudent.
- Complying with the Code of Practice (any significant non-compliance being fully disclosed).

The CFO has also responsibilities for:

- Keeping proper accounting records, which are up to date.
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the Accounts

I certify that the Statement of Accounts presents fairly the position of Southampton City Council at 31st March 2007 and its income and expenditure for the year ended 31st March 2007.

Signed _____

Date 29th June 2007

C Williamson

Executive Director of Resources and
Chief Financial Officer

4. Approval of the Accounts

I certify that the Statement of accounts has been approved by a resolution of the Standards and Governance Committee in accordance with the Accounts and Audit Regulations 2003 and is authorised for issue.

Signed _____

Date 29th June 2007

S.Barnes-Andrews

Chair, Standards and Governance Committee.

INCOME AND EXPENDITURE ACCOUNT

This Account summarises the resources that have been applied and generated in providing services and managing the Council during the year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real value of retirement benefits earned by employees in the year.

<u>2005/06</u>			<u>2006/07</u>		
<u>Net</u>		<u>Notes</u>	<u>Gross</u>		<u>Net</u>
<u>Expenditure</u>			<u>Expenditure</u>	<u>Income</u>	<u>Expenditure</u>
£000's			£000's	£000's	£000's
1,376	Central Services to the Public		90,225	(87,725)	2,500
	Cultural, Environmental and Planning				
48,054	Services		72,086	(27,167)	44,919
117,624	Education Services		187,991	(157,722)	30,269
7,784	Highways, Roads and Transport Services		22,899	(10,739)	12,160
(2,690)	Housing Services		52,436	(54,242)	(1,806)
69,269	Social Services		107,320	(34,950)	72,370
6,603	Corporate and Democratic Core		5,731	(510)	5,221
2,455	Non Distributable Costs		4,078	(32)	4,046
250,475	Net Cost of Services		542,766	(373,087)	169,679
	Loss / (Gain) on the disposal of Fixed Assets				0
125	Loss / (Gain) on early settlement of Borrowing				(47)
584	Contributions to Other Local Authorities	39			501
8,052	Interest payable and similar charges				8,627
	Contributions of Housing Capital Receipts to Government Pool	30 (d)			5,315
7,004	Interest and Investment Income				(3,302)
(1,767)	Pensions Interest Costs & Expected Return on Assets	37 (a)			5,259
5,220					
269,700	Net Operating Expenditure		542,766	(373,087)	186,032
(68,995)	Demand on Collection Fund				(70,892)
(111,614)	General Government Grants				(13,778)
(73,665)	Non - Domestic Rates Redistribution				(73,605)
15,426	Deficit / (Surplus) for the Year				27,757

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is treated as a loss in the Income and Expenditure Account, but is met from the useable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use or reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/06 £000's		2006/07 £000's
15,426	Deficit / (Surplus) for the Year on the Income and Expenditure Account	27,757
(12,930)	Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the Year	(28,004)
2,496	Decrease/(Increase) in General Fund Balance for the Year	(247)
(13,172)	General Fund Balance Brought Forward	(10,676)
(10,676)	General Fund Balance Carried Forward	(10,922)
	Amount of General Fund Balance held by Schools under Local Management schemes	
(10,676)	Amount of General Fund Balance generally available for new expenditure	(10,922)
(10,676)	Total	(10,922)

The statement below sets out the details of the reconciling transactions (Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the Year) and shows the movement to and from other earmarked reserves.

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2005/06 £000's		Notes	2006/07 £000's
Amounts included in the Income and Expenditure Account but required by Statute to be excluded when determining the Movement on the General Fund for the Year			
(43)	Amortisation of intangible fixed assets	23	(302)
(16,136)	Depreciation and Impairment of fixed assets	17	(33,950)
1,045	Revenue contribution to Deferred Assets	40	1,045
(33)	Deferred Consideration written down	42	(32)
1,140	Government Grants Deferred amortisation	49	1,296
(6,236)	Write downs of deferred charges to be financed from capital resources	17	(4,708)
(125)	Net loss on sale of fixed assets		0
<u>(24,580)</u>	Net charges made for retirement benefits in accordance with FRS 17	37	<u>(30,610)</u>
(44,968)			(67,261)
Amounts not included in the Income and Expenditure Account but required to be included by Statute when determining the Movement on the General Fund for the Year			
3,764	Minimum revenue provision for capital financing		4,736
4,004	Capital expenditure charged in-year to the General Fund Balance		1,208
(7,004)	Transfer from Usuable Capital Receipts to meet payments to the Housing Capital Receipts Pool	30 (d)	(5,315)
15,430	Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	37	20,220
16,194			20,849
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year			
(374)	Housing Revenue Account balance		27
153	Collection Fund balance		1,944
231	Voluntary revenue provision for capital financing		144
15,834	Net transfer to or from earmarked reserves		16,293
<u>15,844</u>			<u>18,408</u>
(12,930)	Transfers to or from the General Fund Balance for the Year		(28,004)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This Statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and remeasurement of the net liability to cover the cost of retirement benefits.

2005/06		2006/07
£000's		£000's
15,426	Deficit/(Surplus) for the year on the Income and Expenditure Account	27,757
(141,253)	Surplus arising on revaluation on fixed assets	(86,138)
536	Attributable Movement on Collection Fund Balance	(2,160)
(6,980)	Actuarial (gains) / losses on pension fund assets and liabilities	(2,260)
<u>(132,271)</u>	Total recognised gains for the year	<u>(62,801)</u>

BALANCE SHEET

This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2007.

31st March 2006		Notes	31st March 2007		
£000's			£000's	£000's	£000's
984	Fixed Assets	23		995	
	Intangible Assets				
	Tangible Fixed Assets				
	Operational Assets				
743,091	Council Dwellings			803,481	
599,199	Other Land and Buildings			589,119	
6,753	Vehicles, plant, furniture, and equipment			5,872	
69,590	Infrastructure assets			76,584	
3,136	Community assets			3,047	
	Non-Operational Assets				
123,530	Investment Properties			138,018	
5,476	Assets under construction			13,274	
701	Surplus assets, held for disposal			386	
1,552,460	Total Fixed Assets	17		1,630,776	
41	Long Term Investments				36
1,611	Long Term Debtors	42			2,422
0	Deferred premiums on the early repayment of debt				0
1,554,112	Total Long - Term Assets				1,633,234
	Current Assets				
1,424	Stocks, Stores and Work in Progress	44		1,654	
49,516	Debtors	45	48,480		
(11,709)	Less provision for bad and doubtful debts		(10,546)	37,934	
29,205	Short Term Investments	46		40,536	
1,464	Cash in Hand and Bank	47		243	
					80,367
1,624,012	Total Assets				1,713,601
	Current Liabilities				
(14,468)	Loans Falling due within one year	27		(13,445)	
(49,781)	Creditors	45		(48,587)	
(4,984)	Bank Overdraft	47		(3,261)	
					(65,293)
1,554,779	Total Assets less Liabilities				1,648,308
	Long Term Liabilities				
(115,535)	Long Term Borrowing	27			(125,267)
(22,625)	Deferred Liabilities	48			(21,688)
(298)	Deferred Capital Balances	49			(190)
(6,529)	Provisions	29			(8,256)
(22,146)	Government Grants Deferred	50			(26,773)
0	Deferred discounts on early repayment of debt				0
(210,000)	Liability Related to Defined Benefit Pensions Scheme	37			(218,130)
1,177,646	Total Assets less Liabilities	24			1,248,004
	Financed by:				
1,096,082	Fixed Asset Restatement Account	30			1,159,424
245,882	Capital Financing Account	30			247,015
2,572	Unapplied Capital Receipts Reserves	30			6,267
11,486	Unapplied Capital Grants & Contributions Reserves	30			13,393
33	Deferred Considerations	43			65
(210,000)	Pension Reserve	37			(218,130)
21,001	Earmarked Revenue Reserves	30			26,947
	Revenue Balances				
10,676	General Fund	30			10,922
1,567	Housing Revenue Account	30			1,594
(1,653)	Collection Fund Balance	30			507
1,177,646	Total Net Worth				1,248,004

Signed Chair of Meeting (Mayor)

CASH FLOW STATEMENT

This statement shows in summary form the inflow and outflow of cash during the year.

2005/06		2006/07
£000's	Revenue Activities	£000's
	<u>Cash Outflows</u>	
239,162	Cash paid to and on behalf of employees	235,339
32,485	Housing Benefits paid out	40,931
74,906	Payments to NNDR Pool	79,767
3,400	Fire & Rescue Precept	3,462
7,423	Hampshire Police Authority Precept	7,707
7,538	Payments to the Capital Receipts Pool	5,487
<u>115,202</u>	Other Operating Costs (cash payments)	<u>131,174</u>
480,116	Total Cash Outflows	503,867
	<u>Cash Inflows</u>	
(30,764)	Rents (after Rebates)	(31,863)
(66,247)	Council Tax Income	(70,404)
(74,938)	Non-domestic Rate Income - Payers	(81,719)
(73,665)	Non-domestic Rate Income - Pool	(73,605)
(111,614)	Revenue Support Grant	(13,778)
0	Dedicated Schools Grant	(106,923)
(71,466)	Housing Benefits	(77,941)
(1,158)	HRA Subsidy	(995)
(2,478)	Other Government Grants	(2,799)
(64,178)	Cash Received for Goods and Services	(67,200)
(6,313)	Other Revenue Cash Payments/Income	(5,171)
<u>(502,821)</u>	Total Cash Inflows	<u>(532,398)</u>
(22,705)	Net Cash Inflow from Revenue Activities - Note 38(c)	(28,531)
	Returns on Investments and Servicing of Finance	
	<u>Cash Outflows</u>	
7,014	Interest Paid	5,984
	<u>Cash Inflows</u>	
(1,270)	Interest Received	(2,588)
<u>5,744</u>		<u>3,396</u>
	Capital Activities	
	<u>Cash Outflows</u>	
57,015	Expenditure on Fixed Assets	57,445
	<u>Cash Inflows</u>	
(13,888)	Sale of Fixed Assets	(14,076)
(14,181)	Capital Grants Received	(16,646)
(2,874)	Other Capital Cash Receipts	(3,764)
<u>(30,943)</u>		<u>(34,486)</u>
<u>26,072</u>		<u>22,959</u>
9,111	Net Cash(Inflow)/Outflow before Financing	(2,176)
	Management of Liquid Resources - Note 38(a)	
16,725	Net Increase/(Decrease) in Short-Term Deposits	11,331
	Financing	
	<u>Cash Outflows</u>	
128,776	Repayments of Amounts Borrowed	239,518
	<u>Cash Inflows</u>	
(26,000)	New Long Term Loans Raised	(78,000)
(129,880)	New Short Term Loans	(171,175)
<u>(155,880)</u>		<u>(249,175)</u>
<u>(1,268)</u>	Net (Increase)/Decrease in Cash - Note 38(b)	<u>(502)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Acquired & Discontinued Operations

The Code of Practice requires the City Council to disclose any material operations, which have been acquired or discontinued. On 10th November, Southampton City Training was transferred to Southampton City College, through a Transfer of Undertakings (Protection of Employment) Regulations (TUPE) model. Consequently, this part of the council's activities have been discontinued.

2. Exceptional/Extraordinary Items and Prior Period Adjustments

In the 2006/07 Statement of Accounts, the council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts.
- Credits for government grants and contributions deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item.
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are included in the table below)

	<u>Consolidated Revenue Account in 2005/06 Statement of Accounts</u> £000's	<u>Movement between Reserves</u> £000's	<u>Removal of capital financing charges</u> £000's	<u>Reallocation of Government grants deferred credits</u> £000's	<u>Recognition of gains and losses on disposal of fixed assets</u> £000's	<u>2005/06 comparative in Income and Expenditure Account</u> £000's
Central Services to the Public Cultural, Environmental and Planning Services	5,033		(3,657)			1,376
Education Services	50,919		(2,523)	(342)		48,054
Highways, Roads and Transport Services	126,172	(819)	(7,728)	(1)		117,624
Housing Services	12,730	(261)	(4,453)	(232)		7,784
Social Services	23,840		(26,530)			(2,690)
Corporate and Democratic Core	70,019		(740)	(10)		69,269
Non Distributable Costs	6,737		(22)	(112)		6,603
	3,101		(203)	(443)		2,455
Impact on Net Cost of Services	298,551	(1,080)	(45,856)	(1,140)	0	250,475
Asset Management Revenue Account (Interest payable and similar charges in 2006/07)	(38,956)		45,856	1,140		8,040
Contributions to Other Local Authorities	584					584
Contributions of Housing Capital						
Receipts to Government Pool	7,004					7,004
Gains / Losses on Early Settlement of Borrowing	7					7
Gains / Losses on disposal of assets	0				125	125
Interest and Investment Income	(1,755)					(1,755)
Interest Paid	0					0
Pensions Interest Costs & Expected Return on Assets	5,220					5,220
Impact on Net Operating Expenditure	270,655	(1,080)	0	0	125	269,700

NOTES TO THE CORE FINANCIAL STATEMENTS

3. Undischarged Obligations – Private Finance Transactions

PFI Schools – During 2006/07, the Council paid a Unitary Charge of £5,443k under the terms of the contract. The Council has the following future obligations:

	£000
Within 1 Year	5,468
2 - 5 Years	22,617
6 - 10 Years	30,131
More than 10 Years	101,636
Total	159,852

PPP Northlands Nursing Home – During 2006/07, the Council paid £2,009k under the terms of the contract. The Council has the following future obligations:

	£000
Within 1 Year	2,009
2 - 5 Years	8,035
6 - 10 Years	10,044
More than 10 Years	26,115
Total	46,203

These private finance contracts are discussed in more detail on **pages 11 & 12**.

4. Trading Activities

Trading services are disclosed in line with the requirements of the Best Value Accounting Code of Practice (BVACoP) and are mainly activities of a commercial nature that are financed substantially by charges made to recipients of the service. The main activities for the Council was Southampton City Training (SCT) and Southampton Information Technology Centre (ITEC) which ceased trading on the 10th November (see note 1 above), other trading activities include Trade Refuse that generated profits of £33k for 2006/07, (2005/06, £29k).

5. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit making charities within the UK and mayoral appeals. The Council's expenditure for 2006/07 was £202k, against a statutory limit of £777k (£3.50 per head of population which for mid point 2006/07 was 222,000). In 2005/06 £211k was spent.

6. Expenditure on Publicity

Section 5 of the Local Government Act 1986 requires a local authority to keep a separate account of its expenditure on publicity. Expenditure on publicity in 2006/07 is set out in the table below. This includes the regular publications of City News and Housing Link.

<u>2005/06</u> £000's	<u>2006/07</u> £000's
721 Recruitment Advertising	629
762 Other Advertising	712
990 Other Publicity	1,155
<u>2,473</u>	<u>2,496</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

7. Building Control Trading Account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control function divided between the chargeable and non-chargeable activities.

<u>Building Regulations Charging Account</u>				
<u>Total Building</u>		<u>Chargeable</u>	<u>Non Chargeable</u>	<u>Total Building</u>
<u>Contol</u>		<u>2006/07</u>	<u>2006/07</u>	<u>Contol</u>
<u>2005/06</u>		<u>2006/07</u>	<u>2006/07</u>	<u>2006/07</u>
£000's		£000's	£000's	£000's
	<u>Expenditure</u>			
510	Employee expenses	459	104	563
0	Premises	0	0	0
20	Transport	17	4	21
25	Supplies & Services	(13)	5	(8)
254	Central & Support Services	248	38	286
809	Total Expenditure	711	151	862
	<u>Income</u>			
542	Building Regulation charges	559	27	586
477	Miscellaneous income	18	(6)	12
1,019	Total Income	577	21	598
210	Surplus/(Deficit) for Year	(134)	(130)	(264)

8. Agency Arrangements

Under a number of statutory powers, the Council is permitted to undertake work on behalf of other bodies. Under such arrangements all expenditure, including administration costs, would be reimbursed by the entity concerned.

The Council currently has only one material arrangement in place; to provide a rehabilitation service for Southampton City Primary Trust. The total value of the service provided in 2006/07 was £651k.

9. Transport Act 2000

Local Authorities are required to disclose details of the expenditure and income in relation to road charging schemes and workplace charging levies. The Council does not currently have any such schemes which fall under the Transport Act 2000.

10. Business Improvement District Scheme

The Council does not currently have any Business Improvement District Scheme in place.

11. Local Authority (Goods and Services Act 1970)

Income and Expenditure incurred under this Act relates to arrangements entered into by the City Council to supply goods and services to other public bodies. An analysis is given below which reflects that the charges are set to recover costs.

NOTES TO THE CORE FINANCIAL STATEMENTS

	2005/06		2006/07	
	<u>Income</u> £000's	<u>Expenditure</u> £000's	<u>Income</u> £000's	<u>Expenditure</u> £000's
Public Bodies				
Other Local Authorities	1,452	1,452	1,706	1,706
Universities and colleges	10	10	64	64
Health Authorities / Trusts	35	35	29	29
Other Public Bodies	464	464	327	327
	<u>1,961</u>	<u>1,961</u>	<u>2,126</u>	<u>2,126</u>

12. Pooled Budgets

Section 31 of the Health Act 1999 allows partnership arrangements between National Health Service Bodies, local authorities and other agencies in order to improve and co-ordinate services. Each partnership makes a contribution to a pooled budget, with the aim of focussing services and activities for a client group. Funds contributed are those normally used for the services represented in the pooled budget and allow the organisation involved to act in a more cohesive way. With effect from 1 April 2004 the Council is required to maintain memorandum accounts in respect of three pooled fund accounts as detailed below:

Community Equipment

Partnership between Southampton City Council and Southampton City Primary Care Trust to provide community equipment to both children and adults in their own homes and residential care plus provision to nursing homes through the purchase of Health Standard and Social Care Standard equipment.

2005/06 £000's	Community Equipment	2006/07 £000's
	Funding	
4	Brought Forward	0
(50)	Southampton City Council	(43)
0	Southampton City Primary Care Trust	0
<u>(46)</u>		<u>(43)</u>
46	Expenditure	36
0	Balance to Southampton City Council	7
<u>46</u>	Carried Forward	<u>0</u>

Learning Disability Development Fund

Partnership between Southampton City Council and Southampton City Primary Care Trust to support the implementation of the "Valuing People: A New Strategy for Learning Disability for the 21st Century".

2005/06 £000's	Learning Disability Development Fund	2006/07 £000's
	Funding	
(12)	Brought Forward	(10)
0	Southampton City Council	0
(185)	Southampton City Primary Care Trust	(196)
<u>(197)</u>		<u>(206)</u>
187	Expenditure	178
<u>(10)</u>	Carried Forward	<u>(28)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

Drug Services

Partnership between Southampton City Council and Southampton City Primary Care Trust with the aim of reducing the harm caused by drugs by increasing the effectiveness of the drug treatment services in Southampton so that targets can be reached and an increased number of people access treatment within nationally set waiting times.

2005/06	Drug Services	2006/07
£000's		£000's
	Funding	
(670)	Brought Forward	(321)
(730)	Southampton City Council	(672)
(1,479)	Southampton City Primary Care Trust	(1,758)
(2,879)		(2,751)
2,558	Expenditure	2,578
(321)	Carried Forward	(173)

13. Members Allowances

The total of members allowances paid in 2006/07 was £644k, (£662k in 2005/06).

14. Officers Emoluments

The number of employees whose remuneration, including redundancy payments but excluding pension contributions, was £50,000 or more is shown in the table below.

Band £	Number of Employees	
	2005/06	2006/07
50,000 - 59,999	50	94
60,000 - 69,999	11	21
70,000 - 79,999	10	11
80,000 - 89,999	2	7
90,000 - 99,999	3	1
100,000 - 109,999	1	0
110,000 - 119,999	1	3
120,000 - 129,999	1	2
130,000 - 139,999	0	1
	79	140

15. Related Party Transactions

The Accounting Code of Practice 1998 requires the Council to disclose material transactions with related parties. This has been introduced to bring local authorities in line with the private sector. For the City Council a "Related Party" is considered to be:

- Central Government and other local authorities
- Any joint venture with another public body
- Any subsidiary or associated company
- Elected Members
- Senior Officers
- The Council's pension fund

NOTES TO THE CORE FINANCIAL STATEMENTS

During the year major transactions with related parties arose with; Hampshire Superannuation Fund and Teachers Pensions Agency as disclosed in **note 37**; Hampshire Police Authority precept of £7,707K and Hampshire Fire & Rescue Services precept of £3,462K shown in the Collection Fund, **page 53**, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants; these are set out in the cash flow statement and notes, **pages 20 & 39 to 40**.

For the elected members and chief officers it also includes members of their close family, their households and any company, trust etc in which they have a controlling interest. Elected members and chief officers were requested to disclose any related party transactions; no material transactions were disclosed for 2006/07.

16. Disclosure of Audit Fees

The Council's appointed auditors are the Audit Commission. The Authority incurred the following fees relating to external audit and inspection. The fees for other services related to specialist advice for work e.g. for 2006/07 on Management of Housing Benefits and for 2005/06 included work on Strategic Partnerships, Developing the Finance Function and Management of Housing Benefits.

<u>2005/06</u> £000's	<u>2006/07</u> £000's
258 Statutory Audit & Inspection	279
104 Certification of Grant Claims and Returns	78
59 Other Services	9
<u>421</u>	<u>366</u>

17. Fixed Assets

Fixed assets are shown at a current valuation of £1,631 million, an increase of £78 million. The basis of valuation is explained in more detail on **page 8**. This valuation does not include certain Church and Voluntary Aided schools. These schools have an estimated value of £32 million. The values are shown as at 31st March 2007.

The movement in Fixed Assets in the year comes about due to changes to asset valuations, disposals of existing fixed assets, new acquisitions and enhancements to assets funded by capital expenditure. Of the £50.0 million spent on capital (net of deferred charges), £27.3 million was written off to the Fixed Asset Restatement Account, as it did not increase the value of the asset.

As a result of revaluations undertaken by the valuation department of the Council there is an increase in asset values of £86 million, which reflects the improvement in the property market. See **pages 8 & 9** for details of methods of depreciation used.

NOTES TO THE CORE FINANCIAL STATEMENTS

	Movements in Fixed Assets During 2006/07									Total
	Intangible Assets	Tangible Assets								
		Operational Assets			Non - Operational Assets					
		<u>Council Dwellings</u>	<u>Other Land and Buildings</u>	<u>Vehicles, Plant and Equipment</u>	<u>Infrastructure</u>	<u>Community Assets</u>	<u>Investment</u>	<u>Under Construction</u>	<u>Surplus held for Disposal</u>	
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Certified Valuation at 31 March 2006	1,027	743,091	599,199	10,537	73,351	3,136	123,530	5,476	701	1,560,048
Movement in Year										
Assets Reclassified			(363)				615	(252)		0
Disposal of assets		(7,137)	(455)				(903)		(640)	(9,135)
Capital spend in year	313	17,511	11,384	2,695	8,746	704	640	8,050		50,043
Spend in year not resulting in change in value		(17,511)	(7,180)	(1,853)	(4)	(567)	(189)			(27,304)
Revaluations		67,527	3,414			(110)	14,982		325	86,138
Impairments in Year			(594)				(657)			(1,251)
Certified Valuation at 31 March 2007	1,340	803,481	605,405	11,379	82,093	3,163	138,018	13,274	386	1,658,539
Depreciation at 1st April 2006	(43)	0	0	(3,784)	(3,761)	0	0	0	0	(7,588)
Depreciation in Year	(302)	(12,053)	(17,027)	(1,723)	(1,748)	(148)				(33,001)
Less Depreciation on Assets Revalued		12,053	741			32				12,826
Depreciation at 31st March 2007	(345)	0	(16,286)	(5,507)	(5,509)	(116)	0	0	0	(27,763)
Net Book Value of Fixed Assets at 31st March 2007	995	803,481	589,119	5,872	76,584	3,047	138,018	13,274	386	1,630,776

Capital expenditure and how it was financed is analysed below:

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	2005/06	2006/07
	£'000s	£'000s
Opening Capital Financing Requirement	175,605	190,226
Adjustment for		
Deferred Assets	1,045	1,045
Deferred Considerations	831	(33)
Capital Investment		
Intangible assets	826	313
Operational assets	48,506	41,040
Non - operational assets	3,792	8,690
Deferred Charges	6,236	4,708
Sources of Finance		
Capital Receipts	(7,233)	(5,131)
Government grants & other contributions	(29,091)	(33,390)
Revenue provision (inc MRP & commutation adj)	(10,291)	(8,061)
Closing Capital Financing Requirement	190,226	199,407
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	11,975	9,693
Increase in underlying need to borrow (unsupported by Government financial assistance)	6,647	5,212
Use of Internal Resources	(4,001)	(5,724)
Increase/(decrease) in Capital Financing Requirement	14,621	9,181

NOTES TO THE CORE FINANCIAL STATEMENTS

18. Commitments Under Capital Contracts

The Council has a number of major contracts that run beyond 31st March 2007, totalling £25.8 million, these are summarised below.

<u>Significant Commitments for Capital Expenditure After 31 March 2007</u>	
	£000's
Decent Homes/Decent Homes Plus	10,470
Housing Associations	5,659
Special Educational Needs Review	1,173
Street Lighting	1,099
Private Sector Home Improvement Grants/Loans	978
Disabled Facilities Grants	701
Multi Storey Car Park Maintenance Programme	689
Hightown, Kanes Hill and Thornhill Schools	664
Mansel Pavillion	509
Other	3,808
Total	25,750

19. Assets Held

A summary of the major assets (excluding investment properties) owned by the Council is as follows:

<u>Estimate of Major Fixed Assets of the Council</u>		
	31.3.06	31.3.07
	No,s	No,s
Council Dwellings	17,423	17,312
Civic Centre	1	1
Depots	2	2
Central and Area Offices	4	4
Early Years	0	1
Infant/Primary schools	45	45
Junior Schools	18	16
Secondary Schools	14	14
Special schools	13	5
Activity Centres and Youth Clubs	12	12
Childrens Services - residential centres	3	2
Social Services-residential centres	7	7
Social Services-day centres	8	8
Off Street Car Parks	54	54
Libraries	8	8
Leisure Centres and Pools	6	6
Museums, Galleries and Related	6	6
Roads-Length (km)	579	579
Open Spaces and Recreation Areas (hectares)	977	977
Markets	1	1
Cemeteries	6	6
Crematorium	1	1
Toilets	28	28
Ski Slope	1	1
Golf Course	1	1
Local Housing Offices/Advice Centres	13	13
Laboratory	1	1

NOTES TO THE CORE FINANCIAL STATEMENTS

20. Leasing

a) Finance Leases

The Council holds 4 finance leases relating to vehicles and equipment. These are all in their secondary period, for which a peppercorn rent is paid, amounting to £327 during 2006/07 and £206 for 2007/08 and thereafter until assets are disposed. No new finance leases were entered into during the year. As these assets are expected to be disposed of within the next 3 years, total outstanding obligations relating to finance leases amount to less than £600.

b) Operating Leases

During 2006/07, £2,158k was paid out in respect of operating lease rentals for vehicles and equipment. As at 31st March 2007 the Council has a commitment to meet leasing rentals on these of £3,855k until 2013/14.

The Council also has commitments on the following buildings amounting to £4,079k, detailed as follows; Castle Way £808k; Southbrook Rise £2,206k; Frobisher House £350k; Cumberland Place £221k; Cumberland House £494k.

The table below details the financial commitment over the various years.

<u>Operating Leases</u>			
	Vehicles & Equipment £'000's	Land & Buildings £'000's	Total £'000's
2007/08	1,589	1,622	3,211
2008/09 - 2011/12	2,257	2,254	4,511
2012/13 - 2019/20	9	203	212
			<u>7,934</u>

A requirement under the Accounting Code of Practice 1998 is for operating leases to be accounted for net of benefits received or receivable, as some leasing companies offer a cash incentive at the start of the lease. The Code now requires this incentive to be accounted for over the term of the lease. The City Council has no leases that fall into this category.

21. Assets Recognised under PFI Arrangement

There are three schools that were rebuilt under Private Finance Initiative arrangements. Under the terms of the arrangements no assets are held by the Council. The Council regains ownership of the assets at the end of the contract in 2031. The total Depreciated Replacement Cost of the three schools is £54 million.

The Council also has a private finance arrangement with BUPA for Northlands Nursing Home. This asset is also treated as 'off balance sheet,' with the Council gaining ownership of the asset at the end of the 50 year lease of the land in 2055. The Depreciated Replacement Cost of the building is to be valued in 2007/08.

22. Assets – Valuation Information

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are carried out by both the Authority's Valuers, under the guidance of Paul Mansbridge (FRICS). The basis for valuation is set out in the statement of accounting policies.

NOTES TO THE CORE FINANCIAL STATEMENTS

Valuations of Fixed Assets carried at Current Value										
	Intangible Assets	Tangible Assets								Total
		Operational Assets				Non - Operational Assets				
		Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Investment	Under Construction	Surplus held for Disposal	
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Valued at Historic Cost	995			5,872	76,584			13,274		96,725
Valued at Current Value in:										
2006/07		803,481	24,811			950	61,737			890,979
2005/06			490,535			1,838	28,114		353	520,840
2004/05			8,464				35,275		33	43,772
2003/04			8,569			212				8,781
2002/03			56,740			47	12,892		0	69,679
Net Book Value of Fixed Assets at 31 March 2007	995	803,481	589,119	5,872	76,584	3,047	138,018	13,274	386	1,630,776

23. Intangible Assets

Intangible fixed assets are defined as “non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal right”. The types of assets normally included within this definition are purchased software.

Intangible assets are amortized to service revenue accounts (from the year following acquisition) over their economic lives.

Purchased Software		£000's
Original Cost		1,027
Amortisation to 1st April 2006		(43)
Balance at 1st April 2006		984
Expenditure in Year		313
Written off to Revenue in Year		(302)
Balance at 31st March 2007		995

Expenditure on intangible assets in 2006/07 all relates to the purchase of software. The capitalised expenditure will be depreciated over the useful life of each asset. Significant items purchased during the year include £160k for the Implementing Electronic Government project and £40k for Actionline.

24. Analysis of Net Assets Employed

In accordance with SSAP 25 there is a requirement to disclose the breakdown of the Authority's overall net asset position; this is detailed in the table below. General fund assets have mainly increased due to the revaluation of investment properties.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2005/06</u> £000's	<u>2006/07</u> £000's
483,935 General Fund	492,197
692,802 Housing Revenue Account	754,803
909 Trading Operations	0
<u>1,177,646</u>	<u>1,247,000</u>

25. Interest in Companies

The Council has a 'simple investment' relationship with two companies – Southampton Enterprise Centre Ltd (SECL) and Solent Sustainable Energy Ltd (SSEL).

See **Note 21** on *page 12* for further information.

26. Capital Instruments

The Council does not have any capital instruments listed or publicly traded on a stock exchange or market.

27. Borrowing

Loans Falling due Within One Year

This includes loans that are of less than one year which are raised almost entirely through the Money Market. Local Authorities may borrow temporarily pending the receipt of revenues and in order to finance capital expenditure

Long-Term Borrowing

In the Balance Sheet borrowing represents loans outstanding to external lenders.

<u>Outstanding</u> <u>31.3.06</u> £000's	<u>Outstanding</u> <u>31.3.07</u> £000's
<u>Source of Loan</u>	
103,550 Public Works Loan Board	113,300
11,985 Other Financial Institutions	11,967
<u>115,535</u>	<u>125,267</u>
<u>Analysis of Loans by Maturity</u>	
3,500 Between 1 and 2 years	3,000
8,250 Between 2 and 5 years	0
7,000 Between 5 and 10 years	0
96,785 More than 10 years	122,267
<u>115,535</u>	<u>125,267</u>

28. Insurance Provisions

The Insurance Funds are used to meet claims that fall within the policy excess or deductible i.e. where the Authority has taken advantage of 'self-insurance'. All liability and property claims settled below £100k and £20k respectively are met from the internal insurance funds. All Directorates are required to contribute toward this fund as part of their annual insurance recharge. Contributions to the fund are reviewed annually based on factors such as exposure (e.g. employee numbers, nature of operations, value of property etc) claims experience and outstanding liabilities.

NOTES TO THE CORE FINANCIAL STATEMENTS

The estimated outstanding reserve for 'claims reported but not settled' as at 31st March 2007 amounted to £3,426k with a closing fund balance of £4,993k. With regard to the outstanding reserve figure, the Council's insurers allocate a claim reserve figure in respect of each and every claim received. This figure represents their initial estimate of the potential cost of the claim and is amended as necessary until the claim is settled. Liability claims represent the vast majority of the total outstanding reserve figure however unlike property claims there is no commitment on the Council to pay the claim. The merits of each individual claim are investigated and claims will only be paid where it is deemed that the Council has been negligent and is legally liable to pay compensation. The reserve figure against a particular claim will also be reviewed periodically by the claims handler when further information becomes available regarding the merits of the case, extent of injury, value of loss etc.

The fund position is fluid as claims are settled and new claims received however the insurance funds are monitored on a monthly basis. The expected timing of any resulting transfer of economic benefit, where it is deemed that compensation should be paid, is impossible to state and it is dependent on the claims settlement process and ultimately the decisions of the Courts. No assumptions have been made in respect of future events and no reimbursement is expected.

29. Provisions

Provisions are amounts set aside each year for specific future expenses, the value of which cannot yet be accurately determined. The Provisions as shown in the balance sheet are analysed in the following table:

	£000's			31.03.07
	01.04.06	Receipts in year	Payments in year	
<u>General Fund</u>				
Itchen Bridge Repairs	718	158	(10)	866
General Insurance Funds	3,441	4,123	(2,571)	4,993
Faulty Windows	111	0	0	111
UPVC Plant	158	0	0	158
Other Provisions	2,098	112	(85)	2,125
	<u>6,526</u>	<u>4,393</u>	<u>(2,666)</u>	<u>8,253</u>
<u>Other</u>				
Other Provisions	3	1	0	3
Total	<u>6,529</u>	<u>4,394</u>	<u>(2,666)</u>	<u>8,256</u>

30. Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans. An analysis of Reserves shown in the balance sheet, are detailed below:

All interest earned on the reserves together with interest earned on General Fund Capital Receipts Unapplied is reflected in the General Fund Revenue account in 2006/07. The level of school balances is the result of the spending decisions of individual schools under the Local Management of Schools legislation. Each school's reserve will be available to it in future years. A statement of all Revenue Reserves is included in the Statement of Reserves, see **page 35**.

NOTES TO THE CORE FINANCIAL STATEMENTS

	Balance at 1st April 2006 £'000	Net Movement in year £'000	Balance at 31st March 2007 £'000	Purpose of Reserve	Further Detail of movement
Fixed Asset Restatement	1,096,082	63,342	1,159,424	Gains on revaluation of fixed assets	a) below
Capital Financing Account	245,882	1,133	247,015	Capital resources set aside to meet past expenditure	b) below
Capital Grants & Contributions unapplied	11,486	1,907	13,393	Government Grants and 3rd party contributions available to meet future capital investments	c) below
Usable Capital Receipts	2,572	3,695	6,267	Proceeds of fixed asset sales available to meet future capital investments	d) below
Pension Reserve	(210,000)	(8,130)	(218,130)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet	Note 37 to the Core Financial Statements, pages 36-39
Housing Revenue Account	1,567	27	1,594	Resources available to meet future running costs of housing services.	HRA Statements pages 46-52
Collection Fund Balance	(1,653)	2,160	507	Southampton City Council's share of the Collection Fund surplus.	Collection Fund Statements page 53
General Fund Balances	10,676	246	10,922	Resources available to meet future running costs of non- housing services.	Statement of Movement on the General Fund Balance, pages 16-17
Other Reserves	21,034	5,978	27,012		e) below
TOTAL RESERVES	1,177,646	70,358	1,248,004		

a) Fixed Assets Restatement Account

This reserve is debited or credited with the impact of the revaluation of assets. The size of the Reserve of £1,159,424k shows the major impact that the valuing of fixed assets has had on the Council's Accounts. It is, however only a notional reserve and cannot be used as a source of finance as it merely represents an amount that may be realised if assets are sold.

2005/06		2006/07
£000's		£000's
983,772	Balance Brought Forward	1,096,082
141,253	Revaluation and Restatement of Fixed Assets	86,138
(33,146)	Exp. Not resulting in a change in Asset Values	(27,304)
974	Movement in Deferred Liabilities	937
17,306	Impairment /Depreciation on Revaluation or disposal of Fixed Assets	12,825
(70)	Other	(119)
(14,007)	Value of Assets Sold, Disposed of or Decommissioned	(9,135)
1,096,082		1,159,424

b) Capital Financing Account

As a result of the accounting requirements for fixed assets this account has been created for transactions relating to capital finance. It comprises amounts set aside from revenue accounts for the repayment of Loans less depreciation, expenditure on fixed assets financed from revenue, reserved proportion of capital receipts and capital receipts applied to finance expenditure on fixed assets.

NOTES TO THE CORE FINANCIAL STATEMENTS

2005/06 £000's		2006/07 £000's
226,019	Balance Brought Forward	245,882
	<i>CAPITAL RESOURCES</i>	
7,233	Usable capital receipts	5,131
17,021	Capital Grants & Contributions	21,337
<u>12,070</u>	Major Repairs Allowance	12,053
36,324		
	<i>REVENUE RESOURCES</i>	
4,415	Revenue contributions	1,325
(6,236)	Deferred charges written down	(4,708)
1,013	PFI Schools	1,013
	MRP less depreciation (net of government grants deferred)	(35,018)
(15,653)		
<u>245,882</u>		<u>247,015</u>

c) Capital Grants and contributions Unapplied

These are capital grants and contributions that are available to finance new capital expenditure but have yet to be applied for that purpose.

2005/06 £000's		2006/07 £000's
11,215	Balance Brought Forward	11,486
29,362	Amounts Receivable in Year	23,244
(29,091)	Amounts Applied to finance Capital in year	(21,337)
<u>11,486</u>	Balance Carried forward	<u>13,393</u>

d) Useable Capital Receipts Reserves

Capital receipts are generated from the sale of fixed assets. The following table shows the extent to which the capital receipts have been generated and utilised in the year. Local Authorities pay the 'reserved part' of HRA capital receipts into a national pool that the government then distributes to local authorities and housing associations on the basis of need. Generally, authorities pay the government 75% of the proceeds from the sale of Council Houses and 50% from the sale of other HRA assets. However, authorities are able to keep all the proceeds where they are used to fund affordable housing or regeneration schemes.

NOTES TO THE CORE FINANCIAL STATEMENTS

2005/06	Total	2006/07		Total
		Housing Revenue Account	General Fund	
£000's		£000's	£000's	£000's
2,766	Opening Balance at 1st April	12	2,560	2,572
	Receipts in Year:-			
	Sale of Assets			
9,537	Council Housing	7,235		7,235
4,351	Land, Buildings & Equipment	1,040	5,802	6,842
166	Repayment of Advances	107	5	112
121	Other	0	70	70
16,941		8,394	8,436	16,830
(132)	Allowable deduction arising from Disposal	(117)	0	(117)
16,809		8,277	8,436	16,713
	Application in Year:-			
0	Inter Portfolio Transfer	(1,902)	1,902	0
(7,233)	Financing of new Capital Expenditure	(103)	(5,028)	(5,131)
(7,004)	Pooled Receipts	(5,315)	0	(5,315)
2,572	Closing Balance at 31st March	958	5,310	6,267

e) Other Earmarked Reserves

These are monies set aside for specific reasons but have yet to be applied for that purpose.

Balance at 31.03.07		Net Movement in Year	Balance at 31.03.07
£000's	<u>Other Earmarked Reserves</u>	£000's	£000's
33	Deferred Considerations	32	65
12	HCC Admin/Sals Adjustment	0	12
4,454	PFI Sinking Fund	102	4,556
34	SCC External Investments	0	34
3	Non Capital Receipts	1,001	1,004
5,779	School Balances	525	6,304
1,206	On Street Parking	33	1,239
414	Transport Repairs Equalisation	(37)	377
350	Invest to Save	(250)	100
15	Housing Act Advances	1	16
7,601	Housing Revenue Contributions to Capital	4,719	12,320
1,133	City Training/I TEC	(148)	985
<u>21,034</u>		<u>5,978</u>	<u>27,012</u>

31. Contingent Liabilities and Assets

Contingent Liabilities are potential liabilities, which are not legally enforceable but may become so on the happening of a future event.

The Council has a legal duty under Health and Safety legislation to protect its employees, contractors, tenants and other people from the effects of inhaling asbestos. In 1997/98, an asbestos policy was implemented which created an asbestos unit. In establishing the policy, costs were identified on the most up-to-date information available. Given the nature of the problem, it is possible that further costs will arise in the future, which at this stage cannot be ascertained.

32. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by the council's Standards and Governance Committee on 29th June 2007.

33. Post Balance Sheet Events

There are no post balance sheet events to report.

34. Trust Funds

As required by the Statement of Recommended Practice Trust Funds do not represent assets of the Council and have not been included into the Council's Balance Sheet. Details of Trust Funds where the Council is sole trustee can be found on **page 56-60**.

35. Reserves and Balances held by Schools

School balances as at 31st March 2007 (31st March 2006) total £6,304k (£5,779k), consisting of £6,597k (£6,188k) reserves and £293k (£410k) loans.

36. Amounts Due to or from Related Parties

As at 31st March 2007, monies outstanding from related parties included VAT (HM Revenues & Customs) £2,514k, Housing Benefits (Department for Works & Pensions) £7,450k and Non Domestic Rates (Department of Communities and Local Government (DCLG)) £3,208k. There are no doubtful debts included within these figures.

In contrast the Council owed money in respect of National Insurance and PAYE £4,607k; Local Government Superannuation £1,949k; Teacher's Superannuation £932k; SEEDA (South East England Development Agency) £281k, Standards Fund £3,403k and DCLG £1,571k.

37. Retirement Benefits

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

a) Current Service Costs

In 2006/07, the Council paid an employer's contribution of £20.22 Million into Hampshire County Council's Pension Fund. The contribution rate is determined by the Fund's Actuary, based on triennial valuations. The employer's rate in 2006/07 was 275% of employee's contributions and was set following the 2004 actuarial valuation. The rate set for 2007/08 is 295% and this follows the result of the valuation at 31st March 2004.

The authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund. The tables below show the transactions that have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year.

	<u>2005/06</u> £000's	<u>2006/07</u> £000's
Income and Expenditure Account		
<i>Net Cost of Service</i>		
Current service costs	18,740	21,650
Past service costs	620	3,700
<i>Net Operating Expenditure</i>		
Interest Cost	23,540	27,140
Expected return on assets in the scheme	<u>(18,320)</u>	<u>(21,880)</u>
Net Charge to the Income and Expenditure Account	<u>24,580</u>	<u>30,610</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2005/06</u> £000's	<u>2006/07</u> £000's
Statement of Movement in the General Fund Balance		
Reversal of net charges made for retirement benefits in accordance with FRS 17	(24,580)	(30,610)
<i>Actual amount charged against the General Fund Balance for Pensions in the Year:</i>		
Employers' contributions payable to scheme	<u>15,430</u>	<u>20,220</u>
	<u>(9,150)</u>	<u>(10,390)</u>

b) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31st March are as follows:

	<u>2005/06</u> £000's	<u>2006/07</u> £000's
Estimated Liabilities in scheme	(512,160)	(551,180)
Estimated Liabilities of discretionary benefits	(32,970)	(36,160)
Share of Assets in the Fund	<u>335,130</u>	<u>369,210</u>
Net Asset / (Liability)	<u>(210,000)</u>	<u>(218,130)</u>

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £218,130 has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions by the Authority and employees over the remaining working life of employees, at a level assessed by the scheme actuary.

c) Basis for Estimating Assets and Liabilities

The most recent valuation was carried out as at 31 March 2004, and has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of FRS17 in order to assess the liabilities of the Fund as at 31 March 2007. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Movement in net liabilities for the year is shown in the following table:

<u>2005/06</u>	<u>2006/07</u>
205,929 Opening Balance	210,000
18,740 Current Service Cost	21,650
2,521 Past Service Costs (added years)	3,700
23,540 Interest costs	27,140
(18,320) Return on Assets	(21,880)
(15,430) Payments to Pension Fund	(20,220)
(6,980) Actuarial Losses (Surplus) on Fund	(2,260)
<u>210,000</u> Balance Carried Forward	<u>218,130</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

The main assumptions used in their calculations have been:

	2005/06	2006/07
Inflation	3.0%	3.2%
Rate of general long-term increase in salaries	4.5%	4.7%
Rate of increase in pensions in payment	3.0%	3.2%
Rate of increase to deferred pensions	3.0%	3.2%
Discount rate	4.9%	5.3%
Take - up option to convert annual pension into retirement grant	50.0%	50.0%

The market value of the assets of the Hampshire County Council Pension Fund at 28th February 2007 was £2,846.39 Million. The assets as at 31 March 2007 have been estimated using index returns between 28th February and 31st March 2007. The asset values used as at the accounting date are set out below.

	Long-term rate of return expected at 31 st March 2006	Estimated Value at 31 st March 2006		Long-term rate of return expected at 31 st March 2007	Value at 31 st March 2007	
	(% pa)	(£'000)	(%)	(% pa)	(£'000)	(%)
Equities	7.3	1,874,490	(70)	7.7	1,940,230	(67)
Property	6.3	106,400	(4)	6.7	130,880	(4)
Government Bonds	4.3	549,060	(21)	4.7	597,210	(21)
Corporate Bonds	4.9	0	0	5.3	77,000	(3)
Other Assets	4.6	137,580	(5)	5.6	140,160	(5)
Total	6.5	2,667,530	(100)	6.9	2,885,480	(100)

The Fund's solvency level on 31 March 2004 was 68.6%, well down on the previous valuation on 31 March 2001 when it stood at 88.1%. This is for two main reasons.

- Poor investment returns in 2001/02 and 2002/03.
- Increased life expectancy.

d) Actuarial Gain / Losses Relating to Pensions

The actuarial gains identified as movements on the pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2007:

	2002/03		2003/04		2004/05		2005/06		2006/07		
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%	
Difference between the expected and actual return on assets	(57,620)	34.9	20,910	10.2	9,200	3.5	44,150	13.2	(490)	(1.0)	of scheme assets
Experience gains and losses on pension liabilities	860	0.3	(180)	0.1	23,240	5.3	120	0.0	(1,290)	(2.0)	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	(350)	0.1	770	0.2	(80,690)	(18.5)	(37,290)	(7.3)	4,040	7.0	of scheme liabilities
	<u>(57,110)</u>		<u>21,500</u>	6.7	<u>(48,250)</u>	(11.0)	<u>6,980</u>	1.4	<u>2,260</u>	4.0	

NOTES TO THE CORE FINANCIAL STATEMENTS

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this assumption has reduced the value placed on the liabilities for FRS17 purposes by less than 3%. This has been reflected in the Statement of Reserves. The change has not affected the figures in the Income and Expenditure Account.

Further information can be found in the actuary's valuation report and Hampshire County Council's Pension Fund Annual Report, which are available from the County Treasurer, The Castle, Winchester, Hampshire, SO23 8UB.

e) Defined Contribution Schemes

Teachers employed by the authority are members of the Teacher's Pension scheme, administered by Capita Teacher's Pensions. It provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2006/07 the City Council paid £*****Million to Teachers' Pensions in respect of teachers' retirement benefits, representing **% of pensionable pay. The figures for 2005/06 were £7.1 Million and 13.5%.

The Scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability described in note c) above.

38. Notes to Cash Flow Statement

a) Management of Liquid Resources

As at the 1 April 2006, the Council held £29.205 million of short term investments that could be realised in a relatively short time. These have increased by £11.331 million in 2006/07 to £40.536 million at 31st March 2007.

b) Reconciliation of Net Cash Flow to Movements in Net Debt

<u>2005/06</u> £000's		<u>2006/07</u> £000's
1,268	Increase / (Decrease) in Cash	502
(5,818)	Outflow / (Inflow) from Short Term Borrowing.	1,023
(21,965)	Inflow from New Long Term Borrowing	(9,732)
<u>16,725</u>	Purchase of Current Asset Investments	<u>11,331</u>
(9,790)	Movement in Net Debt	3,124
(94,528)	Net Debt at 01.04.05	(104,318)
<u>(104,318)</u>	Net Debt at 31.03.06	<u>(101,194)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Reconciliation of Revenue Account Deficit to Net Cash Flow from Revenue Activities

<u>2005/06</u> £000's		<u>2006/07</u> £000's
2,496	General Fund	(246)
374	HRA	(27)
620	Collection Fund	2,160
(71)	ITEC and City Training	0
3,419		1,887
	<u>Add Back</u>	
(3,923)	Appropriations to Reserves	(11,548)
(12,040)	Non Cash Items	(16,109)
(171)	Provisions	(1,727)
(12,715)		(27,497)
	<u>Items on an Accruals Basis</u>	
(54)	Stock/WIP (decrease)/increase	230
878	Long Term Debtors (decrease)/increase	811
(41)	Deferred Revenue Expenditure	0
(3,202)	Short Term Debtors (decrease)/increase	127
(1,723)	Creditors (increase)/decrease	1,194
(16,857)		(25,135)
	<u>Items Classified in another classification in the Cash Flow Statement</u>	
1,270	Interest Received	2,588
(7,014)	Interest Paid	(5,984)
(22,601)	Net (inflow)/outflow	(28,531)

d) Other Government Grants

<u>2005/06</u> £000's		<u>2006/07</u> £000's
1,651	Benefits Administration	2,033
470	Housing Defect Act	431
357	NNDR Collection Grant	335
2,478		2,799

e) Analysis of Changes in Net Debt

	<u>01.04.06</u>	£000's <u>Movement</u>	<u>31.03.07</u>
Bank Overdraft	(4,984)	1,723	(3,261)
Cash in Hand and Bank	1,464	(1,221)	243
Debts Due:			
Within 1 Year	(14,468)	1,023	(13,445)
After 1 Year	(115,535)	(9,732)	(125,267)
Current Asset Investments	29,205	11,331	40,536
	(104,318)	3,124	(101,194)

NOTES TO THE CORE FINANCIAL STATEMENTS

39. Dedicated Schools Grants

The council's expenditure on schools is funded by grant provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2006/07 are as follows:

Schools Budget Funded by Dedicated School Grant			
	<u>Central Expenditure</u>	<u>Individual Schools Budget</u>	<u>Total</u>
	£'000	£'000	£'000
Original grant allocations to Schools Budget for the current year in the Authority's budget	12,156	94,767	106,923
Adjustment to finalised grant allocation	0	0	0
DSG receivable for the year	12,156	94,767	106,923
Actual expenditure for the year	(11,886)	(94,754)	(106,640)
(Over)/under-spend for the year	270	13	283
Planned top-up funding of ISB from Council Resources	0	0	0
Use of schools balances brought forward	0	0	0
(Over)/under-spend from prior year	0	0	0
(Over)/under-spend carried forward to 2007/08	270	13	283

40. Contributions to Other Local Authorities

Contributions paid to other local authorities are detailed in the table below:

<u>2005/06</u> £000's	<u>2006/07</u> £000's
2 Magistrates Court	0
32 Southern Seas Fisheries	33
461 Coroners Services	429
89 Flood Defence	39
584	501

41. Revenue Contribution to Deferred Assets

At the end of the PFI Schools contract, the schools will revert to Council ownership. A deferred asset is built up over the life of the contract with the expected residual value. The residual value is credited to Education's cost of service over the remaining life of the contract to reflect the lower unitary charge that would be payable if no residual value of the assets existed. The expected residual value of the 3 schools

NOTES TO THE CORE FINANCIAL STATEMENTS

is £26.5 million. This is credited in equal proportions over the remaining 24 years and 5 months of the contract. So that there is no impact on the Council Tax, this notional charge is then reversed out in the Statement of Movement on the General Fund Balance.

42. Long Term Debtors

This is made up of the following and analysed in the table below:

a) Mortgages

These are loans outstanding to borrowers either for the purchase of council dwellings, or for the purchase and improvement of private properties under part XIV of the Housing Act 1985. Loans are also made to Housing Associations for the construction and improvement of their properties.

b) PFI Schools

Long Term Debtors include deferred prepayments relating to the PFI Schools. Under the terms of the contract, the school buildings will revert to the authority's ownership at nil additional cost at the conclusion of the contract. In accordance with the SORP, the element of the annual contract payment which is deemed to relate to the acquisition of these assets has been accounted for as a prepayment, which will accumulate over the life of the contract. More information relating to the PFI contract is included in the Statement of Accounting Policies on **pages 11 & 12**.

c) Other

The major proportion of this balance is for the Assisted Car Purchase scheme which allows loans to be advanced to members of staff to assist in the purchase of vehicles where the possession and use of a car is required as part of their job.

Some loans are interest free where the loan has been made to an employee who has not renewed a car lease option. Other loans are charged at 2% above base rate, which is set at the beginning of each financial year.

<u>31.3.06</u> £000's		<u>31.3.07</u> £000's
	Mortgages	
298	Sale of Council Houses	190
119	Housing Associations	0
18	Housing Act Advances	13
<u>435</u>		<u>203</u>
1,045	PFI Schools	2,091
131	Other	128
<u>1,611</u>		<u>2,422</u>

43. Deferred Consideration Written Down

Under the PFI Schools contract, the Council donated the Sports Hall at Cantell School as part of the transaction. The benefit the Council receives from transferring this asset in the form of a lower unitary charge is required to be recognised in the accounts. The value of the Sports Hall at the start of the contract was £975,000. This value is amortised to Education's cost of services over the 30 year life of the contract, (£33k per year) to reflect the full cost of the contract. So that there is no impact on the Council Tax, this notional charge is then reversed out in the Statement of Movement on the General Fund Balance.

44. Stocks, Stores and Work in Progress

A summary of stocks, stores and work in progress is shown below. Work in progress is work undertaken on a job, which has not yet been completed or charged for. Work in progress in respect of other Council services is eliminated on consolidation of the accounts.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>31.03.06</u> £000's	<u>General Fund</u>	<u>31.03.07</u> £000's
101	Engineer's Stores	100
253	Woodmill shop	273
689	Central Stores	880
68	Catering	68
120	Gas Van	120
193	Other	212
<u>1,424</u>	Total Stocks	<u>1,653</u>
0	Work in Progress	1
<u><u>1,424</u></u>		<u><u>1,654</u></u>

45. Debtors and Creditors

The Debtor and Creditor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31st March 2007.

National Insurance and PAYE is the amount of the deductions from the Wages and Salaries of City Council staff, which are not paid over to the Inland Revenue by the 31st March 2007.

Inter-Portfolio Debtors and Creditors cancel each other out when the Balance Sheet is produced.

<u>Creditors</u>	
<u>2005/06</u> £000's	<u>2006/07</u> £000's
<u>General Fund</u>	
31,405	32,946
4,717	4,607
1,677	1,571
403	932
1,855	1,949
1,478	3,403
848	679
939	281
385	221
339	216
807	1,261
1,197	1,687
434	451
0	0
<u>46,484</u>	<u>50,204</u>
3,297	(1,617)
<u><u>49,781</u></u>	<u><u>48,587</u></u>
Total Creditors	

NOTES TO THE CORE FINANCIAL STATEMENTS

		<u>Debtors</u>	
<u>2005/06</u> £000's		<u>2006/07</u> £000's	
	<u>General Fund</u>		
20,866	Sundry Debtors	22,773	
396	Leasing	125	
434	Landfill Allowance Trading Scheme (LATS)	451	
2,390	VAT	2,514	
646	Sure Start	0	
12,458	Collection Fund	10,874	
7,096	Housing Benefits	7,450	
44,286		44,187	
(9,675)	LESS Provision for Bad Debts	(9,153)	
34,611		35,034	
5,230	Housing Revenue Account	4,293	
(2,034)	LESS Provision for Bad Debts	(1,393)	
3,196		2,900	
37,807	Total Debtors	37,934	

46. Short Term Investments

The balance shown comprises of investments that are of less than one year, raised through the Money Market £37,400k and two business reserve accounts £3,136k.

47. Cash in Hand and Bank Overdraft

The balance shown comprises:

	31.3.06 £000's	31.3.07 £000's
Bank Accounts	4,984	3,261
Petty Cash	(179)	(243)
City Training/ITEC	(1,285)	0
Total	3,520	3,018

Although the balance shown suggests that the bank is overdrawn by over £3,038k this reflects end of year accounting entries and is not the actual cash position. The Council's balance in the Bank at the 31st March 2007 was actually a credit of £1,023k.

48. Deferred Liabilities

This balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1st April 1997 and the Magistrates Courts.

<u>31.3.06</u> £000's		<u>31.3.07</u> £000's
23,601	Balance Brought Forward	22,625
0	Principal raised in year	0
(976)	Principal written down	(937)
22,625		21,688

NOTES TO THE CORE FINANCIAL STATEMENTS

49. Deferred Capital Balances

This balance consist of the sale of Council Houses

	£000's			
	01.04.06	Receipts in Year	Payments in Year	31.03.07
Sale of Council Houses	298	7,030	(7,138)	190
	<u>298</u>	<u>7,030</u>	<u>(7,138)</u>	<u>190</u>

50. Government Grants Deferred

The balance represents grants, which have been applied in previous years to finance capital expenditure and are being written down over the period of depreciation for the individual assets.

2005/06			2006/07	
£000's			£000's	
18,849	Balance Brought Forward		22,146	
4,437	Applied in Year		5,923	
(1,140)	Credited to I & E Account		(1,296)	
<u>22,146</u>	Balance Carried forward		<u>26,773</u>	

HOUSING REVENUE ACCOUNT

The Housing Revenue Account summarises the transactions relating to the provision, maintenance and sales of Council houses and flats. Although this account is also included within the Consolidated Revenue Account it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to, or from the Council Tax Payer.

For 2006/07 the new SORP's requirements for presenting accounting statements relating to the HRA have changed substantially. Paralleling the restructure of the Consolidated Revenue Account, the transactions relating to the HRA have been separated into two statements:

- The HRA Income and Expenditure Account
- The Statement of Movement on the HRA Balance

As a consequence of this restructure it has been necessary to restate the 2005/06 figures in the new format.

Income and Expenditure Account

<u>2005/06</u>		<u>Notes</u>	<u>2006/07</u>
£000's	<u>Income</u>		£000's £000's
(47,589)	Dwellings Rent	1	(49,745)
(1,529)	Non-Dwelling Rents		(1,405)
(612)	Tenant Charges for Services & Facilities		(639)
(808)	Contributions Towards Expenditure		(1,236)
(1,671)	Housing Revenue Account Subsidy Receivable	9	(431)
(983)	Reduced Provision for Bad or Doubtful Debts		0
(53,192)	Total Income		(53,456)
	<u>Expenditure</u>		
16,058	Repairs and Maintenance		15,497
14,009	Supervision and Management		14,544
454	Rents, Rates, Taxes and Other Charges		491
0	Negative Housing Revenue Account Subsidy Payable	9	1,040
319	Transfer of Bad Debt Provision to General Fund		0
817	Increased Provision for Bad or Doubtful Debt		250
12,223	Depreciation and Impairment of Fixed Assets	3	12,224
48	Debt Management Costs		60
43,928	Total Expenditure		44,106
(9,264)	Net Cost of Services		(9,350)
113	HRA services share of Corporate & Democratic Core HRA share of other amounts included in the whole authority Net Cost of Service but not allocated to specific services		410
(9,151)	Net Cost of HRA Services		(8,940)
0	(Gain) or loss on sale of HRA fixed assets		0
4,396	Interest payable and similar charges		4,334
34	Amortised Premiums and Discounts		(26)
(393)	Interest and Investment Income	6	(499)
583	Pensions Interest Cost & Expected Returns on Pensions Assets	13	330
(4,531)	(Surplus) or deficit for the year on HRA Services		(4,801)

HOUSING REVENUE ACCOUNT

Statement of Movement on the HRA Balance

2005/06 £000's		2006/07 £000's
(4,531)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(4,801)
<u>4,905</u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	<u>4,774</u>
374	(Increase) or decrease in the Housing Revenue Account Balance	(27)
(1,941)	Housing Revenue Account surplus brought forward	(1,567)
<u>(1,567)</u>	Housing Revenue Account surplus carried forward	<u>(1,594)</u>

Note to Statement of Movement on the HRA Balance

2005/06 £000's		2006/07 £000's £000's	
	Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
0	Gain or loss on sale of HRA fixed assets	0	
(2,163)	Net Charges made for retirement benefits in accordance with FRS 17	(1,593)	
(2,163)			(1,593)
	Items not included in the HRA Income and Expenditure Account		
(153)	Transfer to/(from) Major Repairs Reserve	(171)	
1,141	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	940	
6,080	Transfer to Direct Revenue Financing Reserve	5,598	
<u>7,068</u>			<u>6,367</u>
<u>4,905</u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year		<u>4,774</u>

HOUSING REVENUE ACCOUNT

1. Council House Rents

At 31st March 2007 (31st March 2006), current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 5.95% (5.96%). The total arrears were £2,878K (£3,056K). Rents written off during the year amounted to £476K (£266K).

The main sources of rent income after allowing for voids of £681K (£537K) are set out in the following table:

<u>2005/06</u>		<u>2006/07</u>
£000's		£000's
20,311	Rent met by Tenants	21,255
27,278	Rent Rebates	28,490
<u>47,589</u>		<u>49,745</u>

2. Housing Stock

During the year 1.32% (1.30% for 2005/06) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent for 2006/07 was £55.52 a week (£52.92 for 2005/06). The stock at the year-end was made up as follows:

<u>2005/06</u>		<u>2006/07</u>
17,550	Stock at 1st April	17,423
(143)	Less: Sales	(111)
16	Other/Demolitions	0
<u>17,423</u>	Stock at 31st March	<u>17,312</u>
<u>Consisting of :</u>		
5,579	Houses	5,525
11,828	Flats	11,771
16	Bungalows	16
<u>17,423</u>		<u>17,312</u>

3. Major Repairs Reserve

<u>Total</u>		<u>Land</u>	<u>Dwellings</u>	<u>Other</u>	<u>Total</u>
<u>2005/06</u>		<u>2006/07</u>	<u>2006/07</u>	<u>2006/07</u>	<u>2006/07</u>
£000's		£000's	£000's	£000's	£000's
0	Opening Balance	0	0	0	0
(12,223)	Receipts in Year	0	(12,053)	(171)	(12,224)
12,223	Payments in Year	0	12,053	171	12,224
<u>0</u>	Closing Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

HOUSING REVENUE ACCOUNT

4. Capital Expenditure

Capital expenditure and how it was financed is analysed in the following tables:

<u>Capital Spending</u>		
<u>2005/06</u>		<u>2006/07</u>
£000's		£000's
19,497	Housing Stock	17,511
532	Other Property	663
<u>20,029</u>	Total Capital Expenditure	<u>18,174</u>
<u>Capital Expenditure Source of Finance</u>		
£000's		£000's
5	Capital Receipts	102
1,973	Supported Borrowing	1,496
861	Unsupported Borrowing	0
1,779	Grants	3,446
12,070	Transfer from Major Repairs Reserves	12,053
274	Contributions	198
3,067	Direct Revenue Funding	879
<u>20,029</u>	Total Financing	<u>18,174</u>

5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts and how they have been utilised in the year. In 2005/06 the government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the government then distributes to local authorities and housing associations on the basis of need. Generally, authorities pay the government 75% of the proceeds from the sale of Council Houses and 50% from the sale of other HRA assets. However, authorities are able to keep all the proceeds where they are used to fund affordable housing or regeneration schemes.

<u>2005/06</u>		<u>2006/07</u>
£000's		£000's
14	Opening Balance at 1st April	12
Receipts in Year:-		
Sale of Assets		
9,537	Council Housing	7,235
2	Land, Buildings & Equipment	1,040
161	Repayment of Advances	107
<u>9,714</u>		<u>8,394</u>
(132)	Allowable deduction arising from Disposal	(117)
9,582		8,277
Application in Year:-		
(2,561)	Inter Portfolio Transfer	(1,902)
(5)	Financing of new HRA Capital Expenditure	(103)
<u>(7,004)</u>	Pooled Receipts	<u>(5,315)</u>
<u>12</u>	Closing Balance at 31st March	<u>958</u>

6. Interest Received

During 2006/07 the Housing Revenue Account received interest amounting to £499K, (2005/06 £393K). The main sources of this income are detailed in the table on **page 46**.

HOUSING REVENUE ACCOUNT

<u>2005/06</u> £000's		<u>2006/07</u> £000's
24	Council House Mortgages	15
<u>369</u>	Interest on Other Funds & Balances	<u>484</u>
<u>393</u>		<u>499</u>

7. Fixed Assets

The DETR Guidance of Stock Valuation requires that the housing stock be valued as Existing Use Value – Social Housing (EUV-SH), and the guidance prescribes the regional adjustment factors that valuers are expected to use to convert a vacant possession beacon valuation to an EUV-SH valuation. The basis of valuation is explained in more detail on **page 8**.

The vacant possession value of Council Housing within the authority's HRA as at 1st April 2006 was £1.372 million, which is the Authority's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation. The difference between the two shows the economic cost to the Government of providing council housing at less than open market value. The value is based on stock as at the 31st March 2007.

	<u>Movements in Fixed Assets During 2006/07</u>				
	<u>Operational Assets</u>			<u>Non-Operational Assets</u>	<u>Total</u>
	<u>Council Dwellings</u>	<u>Other Land and Buildings</u>	<u>Vehicles, Plant and Equipment</u>	<u>Investment</u>	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Certified Valuation at 31st March 2006	743,091	4,986	1,366	12,453	761,896
Movement in 2006/07					
Disposal of assets	(7,137)				(7,137)
Transfers (to) / from General Fund		(422)		(1,598)	(2,020)
Capital spend in year	17,511	623	41		18,175
Spend in year not resulting in change in value	(17,511)	(623)			(18,134)
Revaluations					
Change in certified valuations	67,527	772		7	68,306
Impairments in Year					0
Certified Valuation at 31 March 2007	803,481	5,336	1,407	10,862	821,086
Depreciation at 1st April 2006			(377)		(377)
Depreciation for Year	(12,053)		(171)		(12,224)
Less Depreciation on Assets Revalued	12,053				12,053
Depreciation at 31st March 2007	0	0	(548)		(548)
Net Book Value of Fixed Assets at 31 March 2007	803,481	5,336	859	10,862	820,538

8. Asset Management Revenue Account

Up until 2006/07, the HRA was required to be charged with a cost of capital, calculated as 3.5% of the value of HRA operational assets. An Amending Determination removed the requirement for the charge in 2006/07. Although this amendment would in theory not remove the requirement for the charge in 2005/06, the comparative figures for 2005/06 have been adjusted to delete the effects of the cost of capital.

HOUSING REVENUE ACCOUNT

9. General Housing Subsidy

The Government pays a General Housing Subsidy to the Housing Revenue Account. This is based on a notional account representing the Government's assessment of what the Council should be collecting and spending. With effect from the 1st April 2004 Rent Rebate Subsidy was removed from the HRA and is now charged to the General Fund. The HRA therefore now only receives General Housing Subsidy

The table below shows a breakdown of the amount of HRA subsidy payable to the Council for 2006/07 in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of HRA Subsidy for 2006/07.

<u>2005/06</u> £000's		<u>2006/07</u> £000's	
470	Housing Defects Act		431
	Housing Subsidy Entitlement in Year		
28,024	Management and Maintenance	29,543	
12,070	Major Repairs Allowance	12,053	
5,861	Charges for Capital	5,658	
117	Admissable Allowance	58	
0	Anti Social Behaviour Allowance		
0	Rental Constraint Allowance	408	
(29)	Interest on Receipts	(23)	
<u>(44,885)</u>	Guideline Rent Income	<u>(48,692)</u>	
1,158		(995)	
<u>43</u>	Previous Years Subsidy Adjustment	(45)	(1,040)
<u><u>1,671</u></u>	Total Housing Subsidy		<u><u>(609)</u></u>

10. Provision for Bad Debts

The table below shows a breakdown of the amount that has been set aside for the provision of bad debts.

<u>2005/06</u> £000's		<u>2006/07</u> £000's
663	MRC Bad Debt Provision	249
1,371	Rents Bad Debt Provision	1,145
0	Housing Benefit Bad Debt Provision	0
<u>2,034</u>		<u>1,394</u>

11. Minimum Revenue Provision (MRP)

The introduction of the 2003 Local Government Act abolished the statutory requirement for the HRA to make a revenue contribution towards the repayment of debt. The impact of this will be higher levels of future outstanding debt.

12. Direct Revenue Financing Reserve

The table below shows the balances available to support HRA capital expenditure.

HOUSING REVENUE ACCOUNT

<u>2005/06</u> £000's		<u>2006/07</u> £000's
	Direct Revenue Financing Reserve	
(4,588)	Direct Revenue Financing Balance Brought Forward	(7,601)
(6,080)	Contribution From Revenue In Year	(5,598)
<u>3,067</u>	Applied for Capital	<u>879</u>
<u>(7,601)</u>	Balance Carried Forward	<u>(12,320)</u>

13. Pensions

Under FRS17 the Council has the option to charge part of the pension costs to the HRA, it was decided to implement this option from the 1st April 2005. The table below shows the total HRA share of contributions to and from the Pension Reserve and breaks the figure down to show the type of contribution to or from the reserve.

	<u>2005/06</u>		<u>2006/07</u>	
	£000's	£000's	£000's	£000's
<u>Costs Shown in Net Cost of Service</u>				
Current service costs		2,094		1,360
Past service costs		69		233
<u>Net Operating Expenditure</u>				
Interest Cost	2,630		1,705	
Expected return on assets in the scheme	<u>(2,047)</u>		<u>(1,375)</u>	
		583		330
<u>Amounts to be met from HRA</u>				
Movement on pensions reserve		(1,022)		(653)
<u>Actual amount charged against HRA</u>				
Employer's contributions payable to scheme		<u>1,724</u>		<u>1,270</u>

THE COLLECTION FUND

This account reflects the statutory requirements for the Council, as a billing authority to maintain a separate Collection Fund. It shows the transactions of the billing authority in relation to national non-domestic rates (NNDR) and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund is consolidated within the accounts.

Income and Expenditure for the Year Ended 31 March 2007			
2005/06		Notes	2006/07
£000s			£000s
	Income		
(66,823)	Council Tax	2	(69,040)
	Transfers from the General Fund		
(13,607)	- Council Tax Benefits	3	(14,180)
0	- Transitional Relief		0
(80,430)			(83,220)
(72,937)	Income Collectable from Business Ratepayers	1	(77,388)
	Contributions towards Previous Year's Deficit		
(153)	- Southampton City Council		(1,944)
(16)	- Hampshire Police Authority		(209)
(8)	- Hampshire Fire & Rescue Service		(96)
(153,544)	Total Income		(162,857)
	Expenditure		
	Precepts		
68,995	- Southampton City Council Precept	4	70,892
7,423	- Hampshire Police Authority Precept	4	7,707
3,400	- Hampshire Fire & Rescue Service Precept	4	3,462
79,818			82,061
	Business Rates		
71,984	- Payment to National Pool		76,559
109	- Interest on Overpayments		96
357	- Costs of Collection	5	335
72,450			76,990
	Bad and Doubtful Debts		
	Council Tax		
243	- Write Offs	6	954
1,164	- Provisions	6	(47)
1,407			907
	Business Rates		
303	- Write Offs	6	517
186	- Provisions	6	(119)
489			398
154,164	Total Expenditure		160,356
620	(Surplus) / Deficit For the Year		(2,501)
1,293	(Surplus) / Deficit Brought Forward		1,913
1,913	Total (Surplus) / Deficit		(588)

THE COLLECTION FUND

1. Non-Domestic Rates

Southampton City Council collects national non-domestic rates (NNDR) for its area on behalf of central government. These rates are based on rateable values for properties set by the Valuation Office Agency, part of HM Revenues and Customs, which are multiplied by a uniform business rate set by central government. The uniform business rate was set at 43.3p in the pound for 2006/07 (42.2p for 2005/06). In 2005/06 small business rate relief was introduced with its own multiplier (42.6p in the pound for 2006/07). The rateable value at 31st March 2007 was £216,782k (£221,776k at 31st March 2006). The total amount due, after adjusting for certain reliefs and other deductions, is paid into a central pool managed by central government. The government redistributes the sums paid into the pool back to local authorities in proportion to population. Southampton's share of the pool for 2006/07, paid directly to the Income and Expenditure Account, amounted to £73,605k.

2. Council Tax Base

<u>Council Tax Base</u>			
	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A Dis	54	5/9	30
Band A	22,661	6/9	15,108
Band B	26,870	7/9	20,899
Band C	18,242	8/9	16,215
Band D	7,714	1	7,714
Band E	2,670	11/9	3,263
Band F	1,224	13/9	1,769
Band G	389	15/9	648
Band H	2	18/9	4
	<u>79,826</u>		<u>65,650</u>

Taking the total Band D equivalents of 65,650 and multiplying this by the standard council tax of £1,271.59 gives a total estimated income from taxpayers of £83,480k. The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for 2006/07 was 98.3%, giving a net Council Tax Base of 64,534. Multiplying this by the standard council tax of £1,271.59, gives the total precepts on the Collection Fund of £82,061k.

3. Benefits

Some households are entitled to allowances to the standard rate of Tax, which includes Council Tax Benefits. The cost of benefits granted is met in full by Government subsidy.

4. Precepts

The Precepts represent the demands made on the Fund by Southampton City Council, Hampshire Police Authority and Hampshire Fire & Rescue Services.

5. Allowance for NNDR Collection

A contribution to the General Fund is made to meet the costs of collection (£335k).

6. Provision for Bad Debts

The contribution to the Council Tax Bad Debt provision is £907k in 2006/07. At the 31st March 2007 the provision totalled £5,264k against a liability of £8,502k.

The contribution to the NDR Bad Debt provision is £398k in 2006/07. At the 31st March 2007 the provision totalled £419k against a liability of £1,384k.

TRUST AND OTHER FUNDS

The Council acts as trustee for legacies left by inhabitants of the City and as residual trustee for the Wessex Slaughterhouse Board. As required by the Statement of Recommended Practice the funds do not represent assets of the Council and have not been included into the Council's Balance Sheet.

Other Funds are:

- **Wessex Slaughterhouse Board** – The Council has responsibility of the former constituent authorities to pay the pensions to former employees. During 2006/07, a substantial distribution totalling £1,087,753 of the board's funds was made to the constituent authorities of the board's assets, leaving only a small fund to maintain liabilities to the small number of remaining pensioners for the future. The resulting payment to the Southampton City Council in 2006/07 amounted to £179,306. Any balance or liability remaining when these responsibilities have been discharged will be shared between the constituent authorities.
- **Criminal Injuries Compensation Board** – Funds are held on behalf of children under 18 who fall under the Councils supervision.
- **Social Services Residents Account** – This account holds personal monies on behalf of residents in old people's homes.

The Other Funds are analysed as follows:

	<u>2005/06</u> £'s	<u>Receipts</u> £'s	<u>Payments</u> £'s	<u>2006/07</u> £'s
<u>Other Funds</u>				
Wessex Slaughterhouse Board	1,155,900	33,982	1,091,382	98,500
Criminal Injuries Compensation Board	101,134	3,518	29,139	75,513
Social Services Residents Accounts	3,419	0	0	3,419
Total	<u>1,260,453</u>	<u>37,500</u>	<u>1,120,521</u>	<u>177,432</u>

The Trust Funds are:

- Chipperfield Trust – Purchase works of art.
- Dora Linton and L. C. Smith Bequests – Help maintain the Merchants Navy Memorial in Holyrood Church
- Ida Bany Bequest – Purchase books about America
- Thomas Morgan Bequest – Finance a local essay competition
- Ida Turnbull Bequest – Purchase of large print books made available for public use.
- Miss Orris Bequest – Purchase of pictures for the Art Gallery
- George Knee Fund – Provision of special annual prizes for Bitterne Park School.
- Aldridge Bequest – To facilitate the access of disadvantaged pupils to personal enrichment experiences
- De Gee – Annual treat for children of the former Hollbrook Children's home.

Following the introduction of the Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005), a separate statement of financial affairs and balance sheet relating to the trust funds are reported on **pages 57–60**.

TRUST AND OTHER FUNDS

Statement of Financial Activities for the year ending 31 March 2007					
2005/06		Notes	2006/07		
Net	Trust Funds		Expenditure	Income	Net
	Resources expended and (incoming resources)	4/5/7	£	£	£
(8,981)	Chipperfield Trust		1,327	(7,291)	(5,964)
(97)	Dora Linton Bequest		0	(98)	(98)
19,024	LC Smith Bequest		10,317	(2,546)	7,771
(252)	Ida Bany Bequest		504	(748)	(244)
50	Thomas Morgan Bequest		0	(1)	(1)
861	Ida Turnbull Bequest		1,164	(143)	1,021
14,545	Miss Orris Bequest		9,070	(8,036)	1,034
(221)	George Knee Prize Fund		0	(245)	(245)
(11,319)	Aldridge Bequest		6,669	(16,659)	(9,990)
(35)	DE Gee Prize Fund		0	(39)	(39)
	Repayment of investment				
5,053	Chipperfield Trust		0	0	0
18,628	Total net incoming resources before other recognised gains and losses		29,051	(35,806)	(6,755)
	Unrealised (gains)/losses on investment assets	6			
(4,323)	Chipperfield Trust		8,624		8,624
16	Thomas Morgan Bequest		1		1
(93,369)	Aldridge Bequest		472		472
(97,676)	Total Unrealised (gains)/losses on investment assets				9,097
	Net movement in funds				
(8,251)	Chipperfield Trust				2,660
(97)	Dora Linton Bequest				(98)
19,024	LC Smith Bequest				7,771
(252)	Ida Bany Bequest				(244)
66	Thomas Morgan Bequest				0
861	Ida Turnbull Bequest				1,021
14,545	Miss Orris Bequest				1,034
(221)	George Knee Prize Fund				(245)
(104,688)	Aldridge Bequest				(9,518)
(35)	DE Gee Prize Fund				(39)
(79,048)	Total net movement in funds				2,342
	Reconciliation of funds			Net movement in funds	Total funds Carried Forward
	Total Funds brought forward				
(134,571)	Chipperfield Trust			2,660	(131,911)
(2,184)	Dora Linton Bequest			(98)	(2,282)
(48,758)	LC Smith Bequest			7,771	(40,987)
(15,238)	Ida Bany Bequest			(244)	(15,482)
(3)	Thomas Morgan Bequest			0	(3)
(1,965)	Ida Turnbull Bequest			1,021	(944)
(163,288)	Miss Orris Bequest			1,034	(162,254)
(4,981)	George Knee Prize Fund			(245)	(5,226)
(349,016)	Aldridge Bequest			(9,518)	(358,534)
(790)	DE Gee Prize Fund			(39)	(829)
(720,794)	Total Funds carried forward			2,342	(718,452)

TRUST AND OTHER FUNDS

Balance Sheet as at 31 March 2007		2005/06	2006/07
	Fixed Assets		£
	Investments		£
76,517	Chipperfield Trust		67,893
23	Thomas Morgan Bequest		22
<u>201,856</u>	Aldridge Bequest		201,384
278,396	Total Fixed Assets		269,299
	Currents Assets		
	Internal Investments Accounts		
59,611	Chipperfield Trust		64,018
2,184	Dora Linton Bequest		2,282
48,758	LC Smith Bequest		40,986
15,238	Ida Bany Bequest		15,482
(20)	Thomas Morgan Bequest		(19)
1,965	Ida Turnbull Bequest		944
163,288	Miss Orris Bequest		162,254
4,981	George Knee Prize Fund		5,226
147,160	Aldridge Bequest		157,151
790	DE Gee Prize Fund		829
<u>443,955</u>			449,153
	Liabilities		
	Creditors falling due within one year		
(1,557)	Chipperfield Trust		0
<u>(1,557)</u>			0
442,398	Net Current Assets		449,153
720,794	Total assets less current liabilities		718,452
<u>720,794</u>	Net assets		718,452
	Trust Funds		
134,571	Chipperfield Trust		131,911
2,184	Dora Linton Bequest		2,282
48,758	LC Smith Bequest		40,987
15,238	Ida Bany Bequest		15,482
3	Thomas Morgan Bequest		3
1,965	Ida Turnbull Bequest		944
163,288	Miss Orris Bequest		162,254
4,981	George Knee Prize Fund		5,226
349,016	Aldridge Bequest		358,534
790	DE Gee Prize Fund		829
<u>720,794</u>			718,452

TRUST AND OTHER FUNDS ACCOUNTING POLICIES

1. Basis of accounting

The financial statements have been prepared on the basis of historic cost with the exception of investments which are included at market value. The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005) and applicable UK Accounting Standards and the Charities Act 1993.

2. Change in the basis of accounting

There have been no other changes to the accounting policies (valuation rules and method of accounting since last year).

3. Changes to previous accounts

There have been no material changes to the accounts for previous years.

4. Incoming Resources

All incoming resources are recognised once the charity has entitlement to the resources, it is certain the resources will be received and the monetary value of incoming resources can be measured with sufficient reliability.

5. Investment Income

This is included in the accounts when receivable.

6. Investment gains and losses

All gains and losses are taken to the Statement of Financial Activities in the year that they arise. Realised gains and losses on investments are calculated as the difference between sale proceeds and opening market value (purchase date if later). Unrealised gains and losses are calculated as the differences between the market value and opening market value (or purchase date if later).

7. Analysis of incoming resources

		<u>Analysis of Incoming Resources</u>					
2005/06		2006/07					
Net Total Incoming Resources		Sales	Donations	Dividends - Unit Trusts and Gilts	Investment Interest *	Total Incoming Resources	
£		£	£	£	£	£	
(11,467)	Chipperfield Trust	0	0	(3,115)	(4,176)	(7,291)	
(97)	Dora Linton Bequest	0	0	0	(98)	(98)	
(3,545)	LC Smith Bequest	0	0	0	(2,546)	(2,546)	
(696)	Ida Bany Bequest	0	0	0	(748)	(748)	
(1)	Thomas Morgan Bequest	0	0	(1)	0	(1)	
(1,131)	Ida Turnbull Bequest	0	0	0	(143)	(143)	
(8,256)	Miss Orris Bequest	0	0	0	(8,036)	(8,036)	
(221)	George Knee Prize Fund	0	0	0	(245)	(245)	
(15,351)	Aldridge Bequest	0	0	(9,347)	(7,312)	(16,659)	
(35)	DE Gee Prize Fund	0	0	0	(39)	(39)	
(40,800)	Total	0	0	(12,463)	(23,343)	(35,806)	

* Interest is paid on net fund balances held with the council

TRUST AND OTHER FUNDS ACCOUNTING POLICIES

8. Other expenditure disclosures

Expenditure for the year was nil for the following items

- Trustees' expenses and emoluments
- Staff costs
- Auditor's remuneration.

9. Funds Structure

All the trust funds are classed as unrestricted funds. Unrestricted funds comprise of funds which the Trustee is free to use for any purpose in furtherance of the trust's objectives as set out in its governing document.

GLOSSARY

1. Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

2. Best Value

A Government initiative introduced in 1998 in a series of pilot projects and now supported by legislation in 1999 that is aimed at measuring the economy, efficiency and effectiveness of all local authority services.

3. Budget

The Council's aims and policies set out in financial terms against which performance is monitored. Both revenue and capital budgets are prepared.

4. Capital Asset Charges

Charges to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

5. Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which adds to and not merely maintains the value or increases the life of an existing fixed asset.

6. Capital Receipts

The proceeds from the sale of capital assets.

7. Community Assets

Assets that the local authority intends to hold in perpetuity and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

8. Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

9. Contingency

A situation which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

10. Council Tax

A local tax levied by Local Authorities on its citizens.

11. Deferred Charges

Expenditure which may properly be deferred, but which does not result in a tangible asset. An example of a deferred charge is expenditure on improvement grants.

12. Depreciation

The measure of wearing out, consumption, or other reduction in the useful economic life of a fixed asset, arising from use, passage of time, obsolescence or other changes.

13. Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

14. Financial Reporting Standard (FRS)

Statements issued by the Accounting Standards Board (ASB) specifying the treatment and disclosure of certain events and transactions in the preparation and publication of accounting statements.

15. Fixed Assets

Tangible assets that benefit the local authority and the services it provides for a period of more than one year.

16. General Fund

The division of the Council's accounts covering services paid for by the precept on the Collection Fund (Council Tax).

17. Going Concern

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

18. Government Grants

Government assistance whether in the form of cash or transfers of assets in return for compliance with certain conditions relating to the activities of the authority.

19. Housing Revenue Account

The division of the Council's accounts that covers services relating to the provision of council housing.

20. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

21. Long Term Investments

An investment that is intended to be held for use on a continuing basis in the activities of the authority.

22. Long-Term Contracts

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

23. National Non Domestic Rate

Business rate levied on companies, firms etc, collected by Local Authorities and paid to a Central Government 'Pool'.

24. Net Book Value

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

25. Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

26. Net Expenditure

Total expenditure for a service less directly related income.

27. Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

28. Non-Operational Assets

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

29. Operating Leases

A lease other than a finance lease.

30. Operational Assets

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

31. Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

32. Revenue Expenditure/Income

The cost or income associated with the day-to-day running of the services and financing costs.

33. Statement of Standard Accounting Practice (SSAP)

Accountancy practice's recommended by the Major Accounting Bodies. The application of SSAPs to local authorities is reflected in Statements of Recommended Practices (SORPs). Most SSAPs have now been superseded by FRSs.

34. Stocks

Comprise the following categories:

- Goods or other assets purchased for resale;
- Consumable stores;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;
- Long-term contract balances; and
- Finished goods.

35. Useful Life

The period over which the Local Authority will derive benefits from the use of a fixed asset.