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Audit Committee

Wednesday, 12th February, 2025
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Council Chamber - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Leggett (Chair)
Councillor Chapman (Vice-Chair)
Councillor Evemy
Councillor Bunday
Councillor Powell-Vaughan

Contacts

Director of Legal and Governance
Richard Ivory
Tel. 023 8083 2794
Email: richard.ivory@southampton.gov.uk

Democratic Support Officer
Maria McKay
Tel. 023 8083 3899
Email: maria.mckay@southampton.gov.uk

PUBLIC INFORMATION

Role of the Audit Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.
02 Part 2 - Articles
It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton: Corporate Plan 2022-2030 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones:- Please switch your mobile telephones or other IT devices to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting.
By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.
Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.
Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Dates of Meetings: Municipal Year:

2024	2025
29 July	12 February
30 September	7 April
11 November	
23 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Audit Committee are contained in Part 3 of the Council's Constitution.

03 - Part 3 - Responsibility for Functions

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, ***both*** the existence ***and*** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

(i) Any employment, office, trade, profession or vocation carried on for profit or gain.

(ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, ‘Other Interest’ in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the “rationality” or “taking leave of your senses” principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, ‘live now, pay later’ and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING) (Pages 1 - 8)

To approve and sign as a correct record the Minutes of the meeting held on 11 November 2024 and to deal with any matters arising, attached.

5 FINAL AUDIT RESULTS REPORT 2023-24 (EY) (Pages 9 - 74)

To note the 2023/24 Audit Results Report as attached.

6 COUNCIL RESPONSE TO EY VFM LIMITED ASSURANCE OPINION (Pages 75 - 84)

To note the further actions to be taken to improve the external auditors (EY) Value for Money opinion.

7 REPORT OF THE CHIEF INTERNAL AUDIT REPORTING ON THE 2024/25 AUDIT PLAN PROGRESS FINANCIAL YEAR TO DATE. (Pages 85 - 100)

To note the Internal Audit Progress report for the period 26th October 2024 to 17th January 2025.

8 STATEMENT OF ACCOUNTS 2023/24 (Pages 101 - 242)

To consider and approve as per the recommendations of the report attached.

9 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2025/26 TO 2028/29 (Pages 243 - 278)

To note the Council's Treasury Management (TM) Strategy and Indicators for 2025/26 to 2028/29, and to endorse the proposal to continue to explore an alternative Treasury Strategy as per the recommendations within the report.

10 **ANNUAL RISK MANAGEMENT REPORT** (Pages 279 - 290)

To note the Annual Risk Management Report 2024 (Appendix 1) and ‘Summary - Strategic Risks End Q3 2024-25’ (Appendix 2).

Tuesday 4 February 2025 Director Legal and Governance

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 11 November 2024

Present:	Councillors Leggett (Chair), Chapman (Vice-Chair), Evemy, Bunday and Powell-Vaughan

9. Minutes Of Previous Meeting (Including Matters Arising)

RESOLVED: that the minutes for the Committee meeting on 30 September 2024 be approved and signed as a correct record with the addition of the following.

It was noted that at the September meeting, it had been stated that the external auditors had been delayed in producing their reports because SCC had been slow to respond to their queries. They stated that there was additional cost taken on by our auditors and a question was raised as to how much it was.

10. Review of Prudential Limits and Treasury Management Mid-Year 2024/25

The Committee received the report of Executive Director Enabling Services & S151 Officer to inform the Committee of the Treasury Management activities and performance for 2024/25.

In discussion the committee noted in particular that loan interest rates had been impacted by the US market, which was inconsistent ahead of the US election but were projected to stabilize. The capital strategy is for growth and prosperity in the city for which funds would need to be paid out to get projects off the ground. There was a limited pot of money for Climate Change Projects and a number of schemes being discussed in consideration of River Itchen flood alleviation. Cash needs were being assessed and analysed over a ten year period. There was a potential risk factor in loans being called in and a debt of £37M had recently been transferred to Hampshire County Council. Property assets were under consideration for retention, development or disposal so as to generate funding for the city.

RESOLVED:

(i) that Audit committee noted the mid-year position for Treasury Management (TM) activities and Prudential Indicators.

(ii) that Audit committee noted that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.

11. Internal Audit Progress Report

The Committee noted the report of the Chief Internal Audit reporting on the 2024/25 Audit Plan progress financial year to date.

The Audit tracker had been warmly welcomed by the management team and implementation had gone well. The Committee agreed that the tracker was an important mechanism to enhance and recommended that after six months there be another review to ensure any fine tuning requirements, and that the standard of input remained high for the information being produced.

In discussion the Committee noted that decision making on the areas to be audited was driven primarily by where high risk was observed. While it was recognised that processes should remain ongoing, whether or not being audited, the committee wished to see the program of work being implemented to bring risks down. The committee requested an update on stats at its next meeting in January. Further, the committee wished to see what services were planning to do to mitigate the concerns raised regarding Parking, Permits and Penalty Charge Notices, and Asbestos. Following initial reports the committee wished to receive a 6 monthly updates on progress.

RESOLVED: that:

(i) the committee noted the Internal Audit Progress report for the period 1st April to 25th October 2024.

(ii) the committee is to receive an updated review in six months to ensure that the standard of data remains high to facilitate the integrity of the reports being produced.

(iii) the committee is to receive updated stats in January 2025.

(iv) the committee is to receive reports on; Parking, Permits and Penalty Charge Notices, and Asbestos in January 2025 and six monthly updates thereafter.

12. CIPFA Resilience and Financial Management Review - Progress on implementing Recommendations

The committee noted that in previous years unrealistic budgets had been set. However, in 2024/25 a realistic budget had been set with a clear focus on; appropriate resources, support for budget holders, and the deficit recovery plan all of which enabled the council to be granted exceptional financial support from the Government.

RESOLVED:

(i) That the committee noted the Council's progress in implementing the recommendations of the CIPFA review.

(ii) That the committee noted the next steps to implement the remainder of the recommendations of the review as part of the Reshaping Financial Management programme.

(iii) That the committee requested that the recommendation paragraphs are numbered for ease of reference.

AUDIT COMMITTEE – 11 NOVEMBER 2024

Title of Item	Action Agreed	Timescale	Responsible Officer	Status
Minutes and Matters Arising **30.09.24**	Resolved that the minutes for the Committee meeting on 30 September 2024 be approved and signed as a correct record with the addition of the following. It was noted that at the September meeting, it had been stated that the external auditors had been delayed in producing their reports because SCC had been slow to respond to their queries. They stated that there was additional cost taken on by our auditors and a question was raised as to how much it was.	January 2025	Maria McKay/Claire Heather Internal Audit team/ Elizabeth Goodwin	Complete
Review of prudential limits and treasury management mid-year 2024/25	Recommendations in the report approved.			Complete

Title of Item	Action Agreed	Timescale	Responsible Officer	Status
Internal audit progress report	(i) Committee noted the Internal Audit Progress report for the period 1st April to 25th October 2024.		Elizabeth Goodwin/ Paul Somerset/Ian Dutfield	Complete
	(ii) Committee is to receive an updated review in six months to ensure that the standard of data remains high to facilitate the integrity of the reports being produced.	February 2025	Elizabeth Goodwin/ Paul Somerset/Ian Dutfield	
	(iii) Committee is to receive updated stats in January 2025.	February 2025	Elizabeth Goodwin/ Paul Somerset/Ian Dutfield	
	(iv) Committee is to receive reports on; Parking, Permits and Penalty Charge Notices, Asbestos, and the HRA Revenue & Capital budget in January 2025.	February 2025	Ian Collins/Debbie Ward Tina Dyer-Slade Jamie Brenchley	Parking, Permits and Penalty Charge notices deferred to April meeting by Debbie Ward.

Title of Item	Action Agreed	Timescale	Responsible Officer	Status
CIPFA resilience and financial management review - progress on implementing recommendations	Recommendations in the report approved. Committee requested that recommendation paragraphs are numbered for ease of reference.		Richard Williams/Mel Creighton Richard Williams	Completed
AUDIT COMMITTEE – 30 SEPTEMBER 2024				
Minutes and Matters Arising	Minutes approved. Outstanding action noted in relation to minute 3 and the training session for Members of the Committee on the Statement of Accounts which is still to be delivered for sign off of the 23/24 accounts.		Mel Creighton/Stephanie Skivington	Sarah Dale organising a pre-meeting training session on 11 Nov. Completed.
Statement of Accounts 2022/23	Recommendations in the report approved.		Mel Creighton/Stephanie Skivington	

Title of Item	Action Agreed	Timescale	Responsible Officer	Status
External Audit Progress Update	Report noted. Next update report to include financial cost of the additional resources needed to support the audit. SCC cover report needed for items from EY.		Kevin Suter Maria McKay/Kevin Suter	

Agenda Item 5

DECISION-MAKER:	Audit Committee
SUBJECT:	**External Audit – 2023/24 Audit Results Report**
DATE OF DECISION:	**12 February 2025**
REPORT OF:	**EY LLP (External Auditor)**

CONTACT DETAILS				
Executive Director	**Title**	Executive Director Enabling Services & S151 Officer		
	Name:	**Mel Creighton**	Tel:	**023 8083 2438**
	E-mail:	**Mel.creighton@southampton.gov.uk**		
Author:	**Title**	**EY LLP**		
	Name:	**Kevin Suter**	Tel:	
	E-mail:	ksuter@uk.ey.com		

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

Auditors are required by ISA 260 to communicate audit matters of governance interest to those charged with governance. The Audit Results Report, summarises the status of our audit and key findings from across the range of the auditor's work and responsibilities under statute and the Code, in relation to the 2023/24 audit.

As reported in our 27 November 2024 Audit Completion Report for the 2022/23 audit, we issued a disclaimed audit report on the Council's financial statements for 2022/23 under the arrangements to reset and recover local government audit. We did not plan to rebuild the gaps in assurance during our work for 2023/24. Therefore, the 2023/24 audit will be disclaimed as a result of the decision not to undertake the 2022/23 audit resulting in the 2022/23 disclaimed audit report. This leads to not having full assurance over the brought forward balances from 2022/23 (the opening balances), and a number of the 2023/24 in-year movements alongside some closing balances. We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements.

We have also experienced difficulties completing the planned programme of work for the 2023/24 audit where the Council have not been able to provide sufficient and appropriate support for the accounts within the time allocated to the audit. Across a number of elements of the 2023/24 Accounts we have not been able to complete our audit procedures.

Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements. We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

RECOMMENDATIONS:

	(i)	To note the 2023/24 Audit Results Report as attached

	(ii)	

REASONS FOR REPORT RECOMMENDATIONS

Please see summary above, with regards to the requirement to issue an Audit Results Report

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

None

DETAIL

See summary above and attached Audit Results Report

Consultation: None

Data Evidence: None

Procurement: None

RESOURCE IMPLICATIONS

Capital/Revenue : None

Property/Other: None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015

Other Legal Implications:

RISK MANAGEMENT IMPLICATIONS: None

POLICY FRAMEWORK IMPLICATIONS: None

KEY DECISION?	**No**
WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Appendices

1.	24 SCC Audit Results Report
2.	

Documents In Members' Rooms

1.	N/A
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality and	**No**

Safety Impact Assessment (ESIA) to be carried out.		
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		**No**
Other Background Documents **Other Background documents available for inspection at:**		
Title of Background Paper(s)		**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1.		
2.		

Southampton City Council Audit results report

Year ended 31 Month 2024

February 2025

Building a better working world

Audit Committee
Southampton City Council
Civic Centre
Southampton, Hampshire,
SO14 7LY

31 January 2025

Dear Audit Committee Members

2023/24 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 12 February 2025 and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2023/24 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Southampton City Council's (the Council) accounting policies and judgements and material internal control findings.

This report considers the impact of Government proposals, which have now been enacted through secondary legislation, to clear the backlog in local audit and put the local audit system on a sustainable footing. The proposals recognise that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. We consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

Given that Statutory Instrument 2024/907 "The Accounts and Audit (Amendment) Regulations 2024 ("SI 2024/907") imposes a backstop date of 28 February 2025 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

We have also taken into account SI 2024/907 and Local Authority Reset and Recovery Implementation Guidance Notes issued by the National Audit Office and endorsed by the Financial Reporting Council, together with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

As reported in our 27 November 2024 Audit Completion Report for the 2022/23 audit, we issued a disclaimed audit report on the Council's financial statements for 2022/23 under the arrangements to reset and recover local government audit. We did not plan significant work to rebuild assurance ahead of the 2023/24 backstop date, and so we have not obtained sufficient evidence to be able to conclude that the financial statements are free from material and pervasive misstatement. Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatements. We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

This report is intended solely for the information and use of the Audit Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

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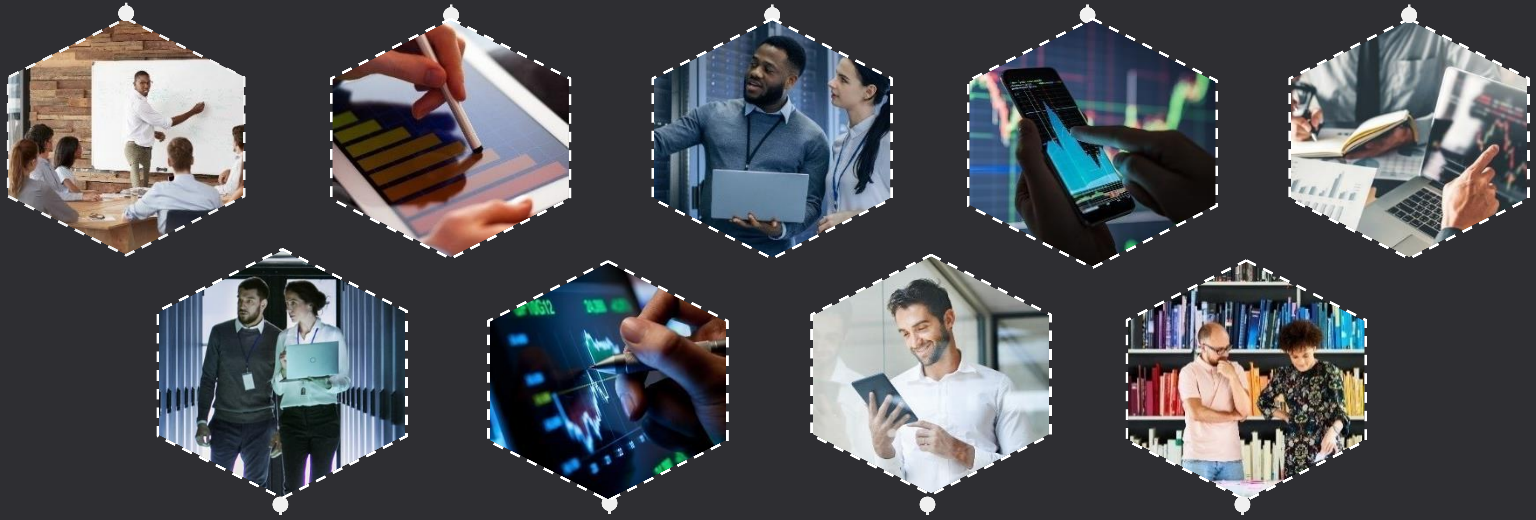
Contents

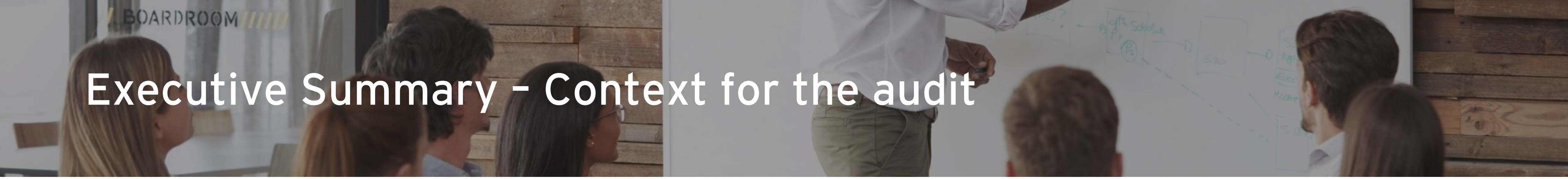


Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code), and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary



Executive Summary – Context for the audit

Context for the audit – Measures to address local audit delays

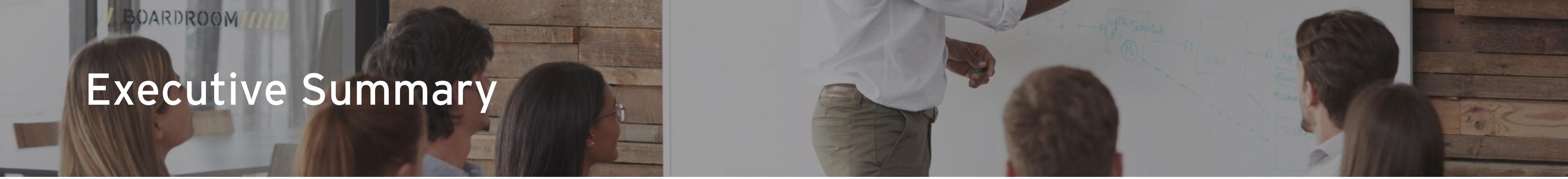
Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- Lack of capacity within the local authority financial accounting profession
- Increased complexity of reporting requirements within the sector
- Lack of capacity within audit firms with public sector experience
- Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

MHCLG (formerly DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop and implement measures to clear the backlog. SI 2024/907, together with the updated National Audit Office Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). The approach to addressing the backlog consists of three phases:

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- Phase 2: Recovery from Phase 1, starting from 2023/24, in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. The backstop date for audit of the 2023/24 financial statements is 28 February 2025.
- Phase 3: Reform involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As reported in our 27 November 2024 Audit Completion Report to those charged with governance, we issued a disclaimed audit report on the Council's financial statements for 2022/23 under these arrangements to reset and recover local government audit.



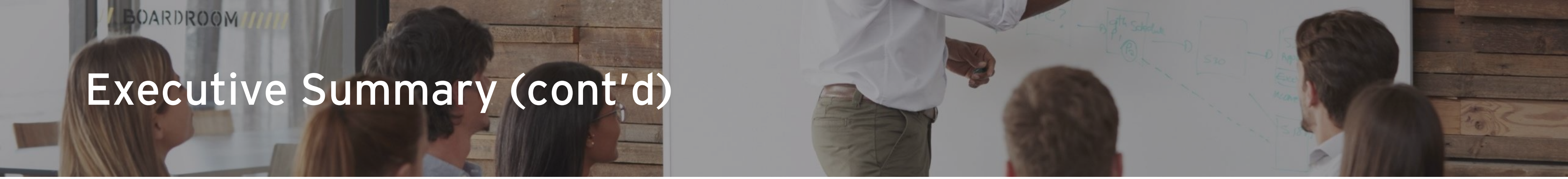
Executive Summary

Scope update

In our Audit Planning Report presented at the 22 April 2024 Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- **Changes in materiality:** We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure, we have updated our overall materiality assessment to £13.86 million (Audit Planning Report – £14.0 million). This results in updated performance materiality, at 75% of overall materiality, of £10.40 million, and an updated threshold for reporting misstatements of £0.69 million.
- **Additional Risk**; We reported to you in our Audit Progress report taken to the 30 September 2024 Audit Committee that we had updated our risk assessment and identified an additional risk since issuing our Audit Planning report. The Council has received a provisional agreement for a capitalisation direction as exceptional financial support (EFS) for 2024/25. As this can only be used in 2024/25, there is a risk that the Council may defer 2023/24 general fund expenditure into the next financial year in order to minimise the 2023/24 overspend, and to then access that funding source in 2024/25 to finance the expenditure. The EFS includes amounts for potential equal pay claims.
- Changes in audit strategy due to inefficiencies or problems caused by the Council: as previously reported in our Audit Progress Report taken to the Audit Committee on 30 September 2024, we experienced a number of setbacks and delays in performing our audit work, these have continued into the additional time that we have allocated to the audit and have resulted in us not being able to complete the planned audit procedures in full. Further details are provided in Section 7. Appendix A sets outs out the assurances we have been able to gain during the audit.

As estimation of the fee impact of the above changes are shown in Section 8 of this report.



Executive Summary (cont'd)

Status of the audit

Due to delays experienced in the Council providing good quality and timely evidence for the audit, we are unable to complete our planned programme of work before the 28 February 2025 backstop date. The areas that we have been able to complete, and those we have not, are set out in Appendix A.

The following items relating to the completion of our audit procedures to be able to give a disclaimer on the Council's accounts that are outstanding at the date of this report are:

- Review of the final version of the financial statements for reported differences;
- Completion of subsequent events review; and
- Receipt of the signed management representation letter

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Statement of Accounts which could influence our final audit opinion. Notwithstanding this and for the reason set out on page 9, we anticipate issuing a disclaimed 2023/24 audit opinion

Value for Money

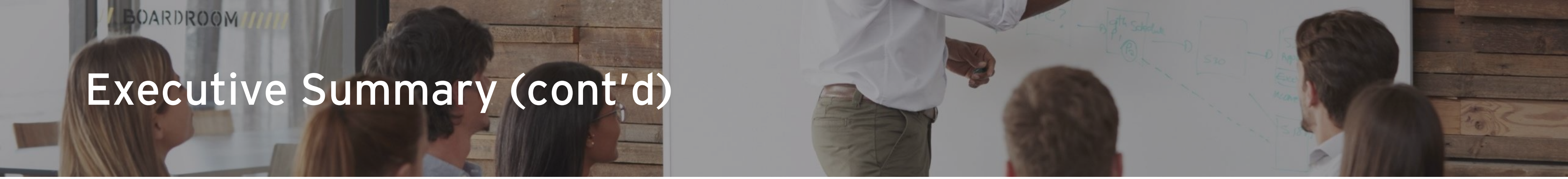
In our Audit Planning Report dated 27 March 2024, we reported that we had completed our value for money (VFM) risk assessment and we had identified a risk of significant weakness in the Council's arrangements that the Council did not have proper arrangements to secure economy, efficiency and effectiveness on its use of resources during 2023/24, which we have already raised to your attention through our 2022/23 interim Value for Money report presented to the Governance Committee on 12 February 2024.

We have kept our risk assessment up to date and identified two further risks of significant weakness in relation to:

1. serious failings identified by the Housing Regulator in relation to the Council delivering the outcomes of the consumer standards; and
2. the Council's ability to support its statutory financial reporting requirements in relation to supporting the audit.

Having updated and completed the planned procedures in these areas we identified significant weaknesses in the Council's arrangements in relation to all three areas.

See Section 3 of the report for further details.



Executive Summary (cont’d)

Expected modification to the audit report

As reported in our 04 December 2024 Audit Completion Report to Those Charged with Governance, we issued a disclaimed audit report on the Authority’s 2022/23 financial statements under the Government’s legislative arrangements to reset and recover local government audit (Statutory Instrument (2024) No. 907 - “The Accounts and Audit (Amendment) Regulations 2024”, The reasons for the 2022/23 disclaimed audit report were set out in the aforementioned 2022/23 Audit Completion Report.

As a result of the 2022/23 disclaimed audit report we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we also do not have assurance over a number of 2023/24 in-year movements that depend on those opening balances, and therefore some closing balances (particularly Reserves). We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements. We did not plan to rebuild this assurance in our 2023/24 audit.

As set out within Section 7 of this report we have not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over all closing balances.

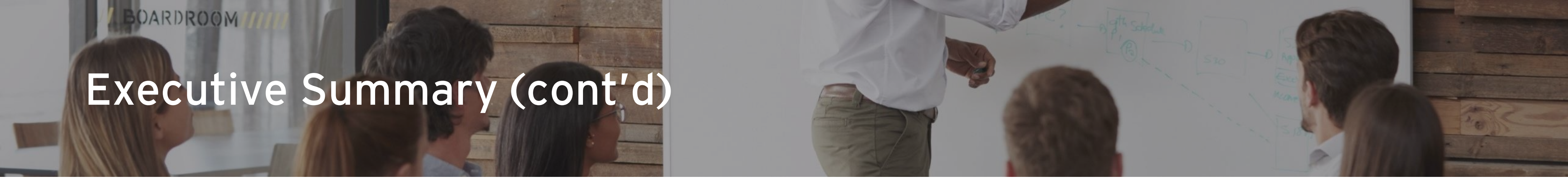
There is insufficient audit resource available to complete the above outstanding procedures on your audit before the 2023/24 backstop date. Insufficient support to the audit meaning that it takes significantly longer than should be necessary is one example of the factors that led to the backlog in the first place, and why the legislative backstop has been introduced.

Taken together, and alongside the requirement to conclude the 2023/24 audit by the legislative back stop date of the 28 February 2025, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements.

We therefore anticipate issuing a disclaimed 2023/24 audit opinion. Because of the disclaimed position for 2022/23, the 2023/24 accounts would have been disclaimed irrespective of any actions or delays in information provision on the part of the Council. The extent of the disclaimed audit report will include the additional areas of the 2023/24 financial statements where we have not been able to gain sufficient assurance, over and above those we set out in our 2022/23 disclaimed audit opinion.

Appendix A of this report sets out the level of assurance we have been able to gain from the procedures that we have completed.

In line with the Government’s legislative arrangements set out above and specifically the ‘Recovery phase’ of those arrangements and with guidance issued by the Financial Reporting Council (FRC) within their ‘Accessible Guide’ there is an expected minimum 3-year timeline to re-build audit assurances to gain full assurance over opening, closing balances and in year movements. We will reflect on the impact of the areas where we did not gain our planned assurances in 2023/24, through our 2024/25 audit planning and set out our timeline for re-building audit assurance within our Audit Plan.



Executive Summary (cont’d)

Audit differences

- ► Uncorrected misstatements increase total comprehensive expenditure by £1.2 million relating to current-year differences.
- ► Management have corrected misstatements amounting to £34.3 million.

Other Reporting Issues

As set out in detail in section 7 of this report, as required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2023/24. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2022/24 on which our work is based.

We wish to bring the following other matters to your attention and have made recommendations in relation to these in section 7:

Significant difficulties encountered during the audit

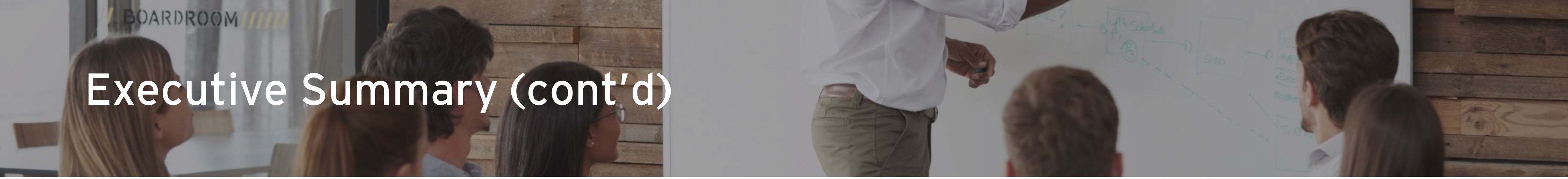
As previously reported in our Audit Progress Report to the Audit Committee on 30 September 2024, we have experienced a number of setbacks and delays in performing our audit work. These have continued into the additional time that we have allocated to the audit and result in us not being able to complete the audit in full.

The issues fall into four key categories:

- Complexity of systems
- Lack of accurate records retained
- Lack of quality evidence supplied (linked to above)
- Delayed, and in some cases no, responses from officers

Consideration of laws and regulations

During the course of the audit we became aware of two instances of non-compliance with laws and regulations which have required us to completed extended procedures in order to assess the risk to the financial statements, having completed these procedures we are satisfied that they do not lead to a material impact on the financial statements. These were in relation to the Equal Pay claims received by the Council and the Housing Regulator judgement detailed in Section 4 of this report.



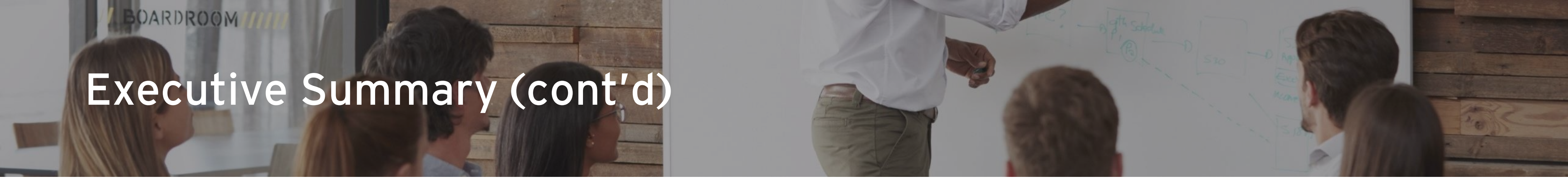
Executive Summary (cont’d)

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (the Act) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We are also able to issue statutory recommendations under Schedule 7 of Section 27 of the Act. Statutory recommendations under Schedule 7 must be considered and responded to publicly and are shared with the Secretary of State,

During 2023/24 we received an objection to the accounts that asked us to issue a report in the public interest in regard to issues raised in Children’s and Adults Direct Payments, and Internal Audit’s operational role in the latter during the 2023/24 financial year.

We issued our decision and statement of reasons on 17 December 2024, and in our judgement decided not to issue a report in the public interest.

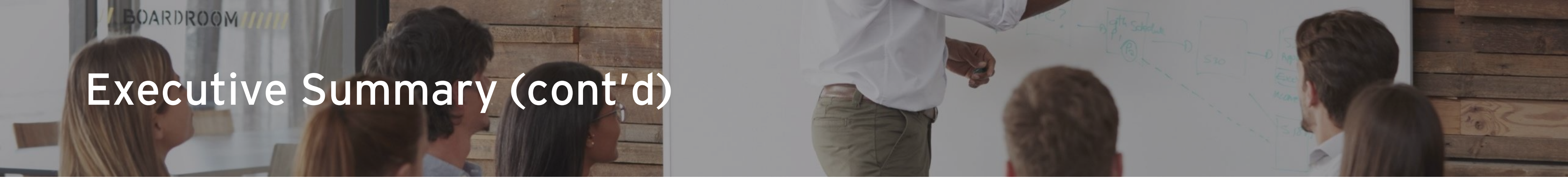


Executive Summary (cont’d)

Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus for our audit of the financial report of Southampton City Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is explained within the ‘Areas of Audit Focus’ section of this report and summarised below.

Risk/area of focus	Risk identified	Details
Misstatement due to fraud or error	Fraud risk	Our work in this area is complete with the exception of our work over the asset valuations, and in this respect, the council have been unable to provide us with sufficient and appropriate audit evidence to be able to complete our planned programme of work. From the work we were able to complete, there are no issues to bring to your attention.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud Risk	The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. From the work we were able to complete, there are no issues to bring to your attention.
Risk of deferral of expenditure into 2024/25	Fraud Risk	The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. From the work we were able to complete, there are no issues to bring to your attention.
Valuation of Investment Property and Land & Buildings	Inherent risk	The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. From the work we were able to complete, we have identified issues relating to the valuation of assets.
Pension Liability Valuation	Inherent risk	Material errors have been identified due to the actuary using incorrect assumptions, which have been corrected by management. We have been unable to complete our work in this area as we are waiting for certain confirmations from the auditors of Hampshire Pension Fund.
Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes	Inherent risk	No issues have been identified from our work to address this risk
Accounting for Private Finance Initiative (PFI) Schemes	Inherent risk	No issues have been identified from our work to address this risk
Going concern	Area of Focus	As it became clear we were going to issue a disclaimer, further work was not required because reporting on going concern is not required in a disclaimed audit report Our conclusions on financial resilience are included in our work on the Council’s value for money arrangements, and will be included in our VFM commentary within our Auditor’s Annual Report.



Executive Summary (cont’d)

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are matters we wish to report which include retention of data, bank accounts and lease data. Further details on these can be found in section 6.

Independence

Please refer to Section 8 for our update on Independence. There are no issues affecting our independence and objectivity to bring to your attention.

02 Areas of Audit Focus

Areas of Audit Focus

Significant and Fraud Risk — Misstatement due to fraud or error

What is the risk, and the key judgements and estimates?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What are our conclusions and what is the status of our work?

Based on our work undertaken, we have not identified any material weaknesses in controls or evidence of management override, instances of inappropriate judgements being applied, or any other transactions during our audit which appear unusual or outside the Council's normal course of business.

We have completed our work over journals and did not identify any indication of management override.

For our review of the potential bias in management estimates, our testing in respect of the NDR appeals provision and PFI contracts key accounting estimates is complete. No issues were identified.

Our testing in respect of the key accounting estimate of the Pension Assets and Liabilities valuation is ongoing as we are waiting for the IAS 19 assurances from the Hampshire Pension Fund auditors, but no instances of management override have been noted.

We were unable to receive sufficient audit evidence to complete our testing of the asset valuation key estimates. See page 18 for further details.

Our response to the key areas of challenge and professional judgement

We carried out the following procedures:

- We identified fraud risks during the planning stages.
- We inquired of management about risks of fraud and the controls put in place to address those risks
- We sought to understand the oversight given by those charged with governance of management's processes over fraud
- We discussed with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions)
- We have considered the effectiveness of management's controls designed to address the risk of fraud
- We determined an appropriate strategy to address those identified risks of fraud
- We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- We undertook procedures to identify significant unusual transactions
- We considered whether management bias was present in the key accounting estimates and judgements in the financial statements

What else did we do?

As part of our risk evaluation, we considered the need to perform other audit procedures not referred to above. We concluded that those procedures included under the 'risk of Inappropriate capitalisation of revenue expenditure' were required. See the following page for the results of work in this area.

Areas of Audit Focus (cont'd)

Significant and Fraud Risk — Inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure. We focused on the Council's judgements exercised in determining whether expenditure is capital in nature, and therefore, appropriate to be capitalised rather than charged to the Comprehensive Income and Expenditure Statement.

What are our conclusions and What is the status of our work?

The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. The testing performed has not identified any misstatements. However, we have had significant difficulties in obtaining sufficient appropriate evidence to support our testing in this area. See section 7 for further details.

We sampled 27 items from capital additions in 2023/24, 10 of which still have outstanding evidence or queries and a further 29 items from capital additions in 2022/23, 6 of which still have outstanding evidence or queries. Testing of these items started 12 July 2024, with exchanges back and forth till 3 September, then the next response received was 2 December in relation to 2022/23. Some further exchange then occurred through December with the final information received 23 December after the agreed time finished on 13 December.

We sampled 7 items within REFCUS and were able to conclude that 3 items were correctly classified. We did not receive sufficient evidence to fully conclude on the remaining items. From the evidence we have received it is likely that these are correctly classified as capitalisable, but we are not clear whether they should be REFCUS or PPE additions.

Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- We tested Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- We assessed whether the capitalised spend clearly enhances or extends the useful like of asset rather than simply repairing or maintaining the asset on which it is incurred.
- We considered whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- We tested Revenue Expenditure Funded from Capital Under Statute (REFCUS), to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources.

What else did we do and further relevant information

We selected a sample of PPE additions and REFCUS spend using lowered testing thresholds, to ensure that they were appropriately supported by documentary evidence, and that the expenditure incurred and capitalised was clearly capital in nature.

Areas of Audit Focus (cont'd)

Significant and Fraud Risk — Deferral of expenditure to 2024/25

What is the risk?

The Council has received a provisional agreement for a capitalisation direction as exceptional financial support (EFS) for 2024/25. As this can only be used in 2024/25, there is a risk that the Council may defer 2023/24 general fund expenditure into the next financial year in order to minimise the 2023/24 overspend, and to then access that funding source in 2024/25 to finance the expenditure. The EFS includes amounts for potential equal pay claims.

Within our consideration of the fraud risk presumption within revenue recognition, we have determined that this risk to be for general fund expenditure not the HRA, and to be present within creditors completeness, and the completeness of provisions with specific reference to equal pay claims.

What are our conclusions and What is the status of our work?

The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. Our testing consisted of two areas, cut-off testing in relation to expenditure invoices and testing of post year end expenditure to ensure expenditure had been recorded in the correct period. We selected a sample of 46 invoices posted across March and April and 44 transactions from the general bank account and a further 26 from the subsidiary bank account. We were able to obtain sufficient audit evidence for 19 invoices and all of the general bank account transactions. However, due to a miscommunication, we did not receive sufficient evidence for us to complete our testing of the subsidiary bank account transactions.

The testing performed had not identified any misstatements.

Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- Assigned a higher risk rating for our testing of cut-off - therefore tested a larger proportion of the defined population.
- Tested the completeness assertion by Identifying the population for cut-off testing and unrecorded liabilities testing, ensuring our testing covered the period from the year end through to the date of the audit report
- Tested for the valuation assertion, Identifying a separate population within creditors for accruals, assigning a higher risk rating

Since this risk is realized mainly through understatement of accruals / expenditure recognized in the wrong financial year, we have focussed our testing on manual year-end receivables accruals, payables accruals and provisions where we believe the risk of management override and/or inappropriate revenue recognition to be greater.

Areas of Audit Focus (cont'd)

Inherent Risk — Valuation of Investment Property and Land & Buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) land and buildings and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The valuation basis is different depending on the type of property being revalued, with assets carried at Depreciated Replacement Cost, Existing Use Value or Fair Value. Each valuation basis is reliant on different inputs, estimation processes and assumptions.

We note that not all of the Council's PPE is subject to revaluation with vehicles, plant, furniture & equipment, infrastructure assets and assets under construction all valued at cost under the CIPFA Code of Practice on Local Authority Accounting.

We identified a number of unadjusted misstatements across all types of asset valuations in 2021/22.

What are our conclusions and What is the status of our work?

The Council revalued 77 land and building (L&B) assets and all 155 investment properties in 2023/24. We sample tested 18 L&B assets valued using DRC and 5 L&B assets using EUV, and reviewed the accounting for a further 12 schools. We also sample tested 17 investment properties.

At the time of stopping the audit, we had outstanding queries on 5 L&B assets valued using DRC; 4 in relation to the land values and one in relation to the ground area used by the valuer.

Our testing of EUV assets is complete, however, we identified variances in all sample items, including the asset revalued by our EY Real Estates team, resulting in an overall overstatement of £9.7m on a tested value of £21.5m. This 45% overstatement in valuation means that we cannot accept the population of assets revalued using EUV in 2023/24 (£26.9m).

At the time of stopping the audit our work completed on the sample of investment properties identified 14 assets being within a reasonable range and 3 that were outside a reasonable range.

See section 7 for further details regarding the difficulties in obtaining sufficient audit evidence over the asset valuations.

Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- Considered the annual cycle of valuations to ensure that assets have been valued as required by the code and internal guidance. We also considered if there were any specific changes to assets that have occurred and verified that these had been communicated to the valuer.
- Reviewed assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

What else did we do and further relevant information

We engaged EY Real Estates, our internal specialists on asset valuations, to support our work over 6 sample items in this area. 4 assets were within range (2 L&B assets valued at DRC and 2 investment properties) and 2 assets were outside of the reasonable range put forwards by EY Real Estates (1 investment property and 1 L&B asset revalued using EUV).

Areas of Audit Focus (cont'd)

Inherent Risk — Pension Liability / Asset Valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2023 this totalled £98 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What are our conclusions?

In response to the requirements of ISA540, the auditing standard on accounting estimates, we based our audit approach on procedures to evaluate management's process. The standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local public sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we undertook further procedures to create an auditor's estimate, to gain assurance. We employed the services of an EY pensions specialist to review the Council's IAS 19 reports and run a parallel actuarial model which was compared to that produced by Hymans Robertson.

This work, has identified a misstatement in some of the assumptions adopted by the actuary and as a result, a further IAS 19 report has been requested by the Council. This report indicates that an amendment of £33.5m was required to the Council's financial statements to reduce the net pension liability. This has been amended, see section 5.

At the time of writing this report, receipt of the final IAS 19 assurances from the auditor of Hampshire Pension Fund is outstanding.

We have no other findings to draw to your attention at this stage.

Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- We liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council
- We assessed the work of the pension fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team
- We evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- We reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What else did we do and further relevant information

We considered outturn information available at the time we undertook our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We used this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

Areas of Audit Focus (cont'd)

Inherent Risk — Restatement of CIES, EFA and related disclosure notes

What is the risk?

Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP. The Council has changed its internal reporting structure in 2023/24, which will mean the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new structure.

What are our conclusions?

The Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes, have been restated appropriately following the change to internal reporting structures.

Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- Agreed the restated comparative figures back to the Council's prior year financial statements and supporting working papers
- Reviewed the analysis of how these figures are derived from the Council's ledger system and how overheads are apportioned across the service areas reported.

What else did we do and further relevant information

We tested to verify that the Council has used a consistent approach for the reclassification of income and expenditure between directorates.

Areas of Audit Focus (cont'd)

Inherent Risk — Accounting for Private Finance Initiative (PFI) Schemes

What is the risk?

The Council has three PFI or service concession arrangements, relating to waste disposal, schools and street lighting, which are material to the accounts. PFI accounting is a complex area, and detailed reviews of these arrangements was undertaken by our specialist in 2016/17 (waste disposal) and 2018/19 (street lighting and schools). We are aware that there have been changes made to the street lighting model since it was last reviewed and, therefore, we will need to engage our PFI specialist to perform an updated review in 2023/24.The liability and payments for services are dependent upon assumptions within the accounting models underpinning the PFI scheme. As such Management is required to apply estimation techniques to support the disclosures within the financial statements.

What are our conclusions?

As part of our work we performed the following procedures

1. Documented assurances brought forward from prior years regarding the appropriateness of the PFI financial model. Reviewed the accounting model for any significant changes, and engaged our internal experts to review the refinancing of the street lighting PFI
2. Ensured the PFI accounting model has been updated for any service or other agreed variations. Confirmed consistency of current year model with prior year brought forward assurances.
3. Agreed inputs to ledger / supporting working papers
4. Agreed outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure
5. Reviewed the completeness and accuracy of disclosures

We have sufficient appropriate audit evidence and assurance over the PFI / service concession arrangements accounting and disclosures.

We concluded that the Council had appropriately accounted for the refinancing gain in 2022/23 as an amount due to the Council (Gainshare payment to Authority), which is presented separately to the unitary charge for the service concession asset.

Our response to the key areas of challenge and professional judgement

In order to address this risk we carried out a range of procedures including:

- enquiring whether there have been any significant changes within the models since our reviews;
- undertaking a review and assess the impact of any changes in assumptions upon the models; and
- agreeing the output of the models to the disclosures within the financial statements

What else did we do and further relevant information

We engaged our internal EY PFI specialist, to support our work in this area, specifically in relation to the refinancing of the Street lighting PFI in 2022/23.

Areas of Audit Focus (cont'd)

Inherent Risk — Going concern

What is the risk?

In the public sector, and specifically under the CIPFA Code of Practice on Local Authority Accounting, the concept of going concern is linked to the continuation of services. There is a presumption that the accounts will be prepared on a going concern basis unless there is clear evidence that services will be discontinued.

In your 2021/22 accounts we reported a material uncertainty which may cast significant doubt on the Council's ability to continue to operate the current planned operational services within available sources of funding. We concluded that although the Council was aware of their financial position its actions in response were still to be embedded and the outcomes were not yet assured to avoid the need for a s114 notice.

The Council has been unable to meet its planned budget in 2022/23 and forecast for 2023/24, and to set a balanced budget for 2024/25 the Council received a provisional notice of exceptional financial support (EFS). However, it must meet certain conditions prior to this being confirmed.

Therefore, in our judgement there is still the risk of material uncertainty over whether the Council will receive the EFS to avoid the necessity of a s114 notice and maintain the current planned level of services.

What are our conclusions?

As it became clear we were to issue a disclaimed audit report, we did not undertake further work in this area. A disclaimed audit report does not include content related to the auditor's conclusions over going concern.

The Council have included a material uncertainty over going concern in their disclosure in the financial statements.

Our planned response to the key areas of challenge and professional judgement

In order to address this risk we will carry out a range of procedures including:

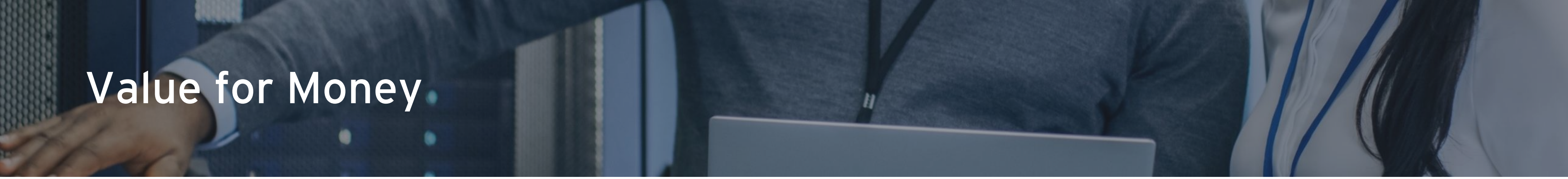
- Challenge management's identification of events or conditions impacting going concern;
- Obtain current financial monitoring reports to gain an understanding of whether the actions the Council has put in place to operate within its set budget are embedding and are achieving the desired outcomes;
- Review the Council's dated cashflow forecast through to at least 12 months from the date of the audit report;
- Assess the impact of medium term financial plan updates and the implications for the Council's reserves;
- Review and challenge the progress that the Council is making on actions in response to the conditions set by the government in order to qualify for the provisional exceptional financial support;
- Challenge the disclosure made in the accounts in respect of going concern and any material uncertainties; and
- Undertake a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, to be able to draw our conclusions on going Concern.

What else did we do and further relevant information

We have identified a risk of a significant weakness in the Council's arrangements for value for money, across all three criteria, related to its financial resilience.

We have performed our procedures over this risk as set out in section 3 of our report, concluding that there were significant weaknesses in the Council's arrangements during 2023/24.

03 Value for Money



Value for Money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the NAO Code of Audit Practice. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and status of our work

We are required to consider whether the Council has made ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources.

Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council’s arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council arrangements against three reporting criteria:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

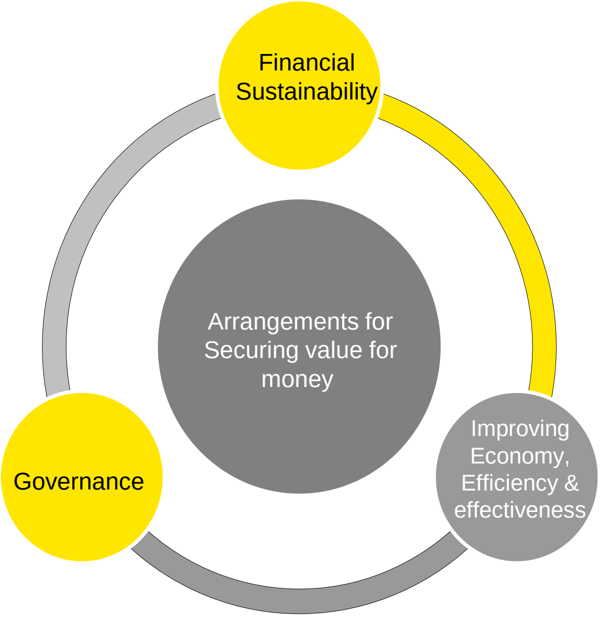
In our audit planning report we identified a risk of significant weakness regarding the Council’s financial resilience.

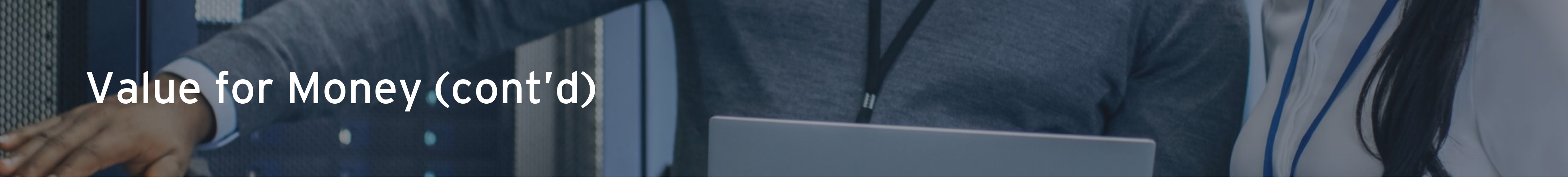
During the audit we identified two additional risks from:

1. The Regulator for Social Housing issued a Regulatory Notice in November 2024
2. The delays and lack of sufficient and appropriate audit evidence provided to support the Council’s financial statements audit.

We concluded that there are significant weaknesses in the Council’s arrangements in all three criteria.

We will issue our VFM narrative commentary in our 2023/24 Auditor’s Annual Report which we expect to issue in March 2025.

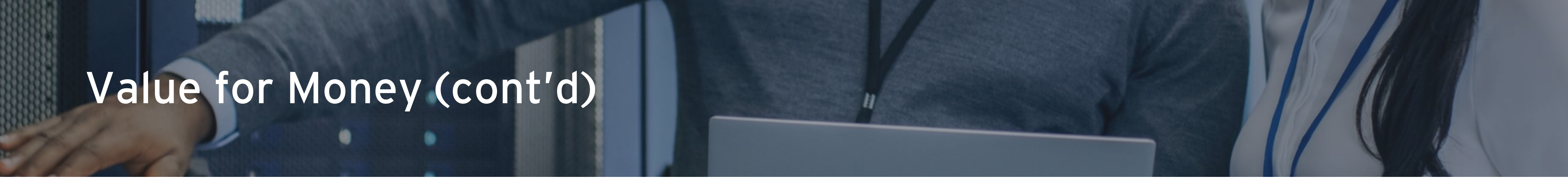




Value for Money (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
Financial resilience The risk as set out in the Audit Plan in April 2024 was that financial monitoring for 2022/23 identified that the Council was struggling to keep spending within set budgets for the year, and the year-end outturn showed a deficit of £11.4 million which was met by a drawdown from reserves. The Council have continued on this trajectory during 2023/24 and as at February 2024, were forecasting a deficit of £5.4 million for the 2023/24 financial year. The Council has been unable to set a balanced budget for 2024/25 without additional support from the government. The Council has received a provisional notice of exceptional financial support for 2024/25 which enabled it to set a balanced budget. However, certain conditions must be met prior to this support being confirmed. Although the Council is aware of their financial position and have put in place actions to address the situation, the actions are still to be embedded and the outcomes are not yet assured to avoid the need for a s114 notice.	• Financial sustainability; • Governance and • Improving economy, efficiency and effectiveness See following pages for sub-criteria impacted	As part of our work to assess the risk, we: ▸ Reviewed and challenged the actions that the Council is making in response to the conditions set by the government in order to quality for the provisional exceptional financial support. ▸ Reviewed and challenged the actions that the Council is taking in response to our recommendations in our interim VFM reporting for 2022/23 ▸ Obtained current financial monitoring reports to gain an understanding of whether the actions the Council has put in place to operate within its set budget are embedding and are achieving the desired outcomes ▸ Reviewed minutes of meetings to gain an understanding of the actions of members in response to the financial position of the Council ▸ Held regular meetings with officers, including the Chief Executive, the Executive Director Enabling Services & S151 Officer and other finance officers, and the Chair of the Improvement and Assurance Board to inform our understanding of the actions that the Council is undertaking ▸ Reviewed the outcome of Internal Audit reports for the year, and assessed the progress officers are making with actions plans to address issues highlighted by Internal Audit.



Value for Money (cont’d)

Risk of significant weakness in VFM arrangements

Findings

We reported in January 2024 that the Council was making very slow progress on resolving its financial position, with the exception progress in being able to manage the in year budget.

Progress has improved since January, with the Exceptional Financial Support (EFS) submission being made and action made by the Council to achieve the conditions set out in the EFS response from the government. However, the majority of this action took place after the receipt of the letter from central government at the end of February 2024, and therefore the weaknesses identified in respect of 2022/23 are still present for the majority or all of the 2023/24 financial year.

Therefore, we consider that there has been insufficient movement during 2023/24 to significantly amend our conclusion that the there is a significant weakness in the arrangements at Southampton City Council to secure financial resilience.

Our work has determined that there has been significant progress made during 2024/25. We will reflect in this progress within our Value for Money Commentary, and during our 2024/25 audit will assess the extent this progress removes any of the weaknesses for that financial year.

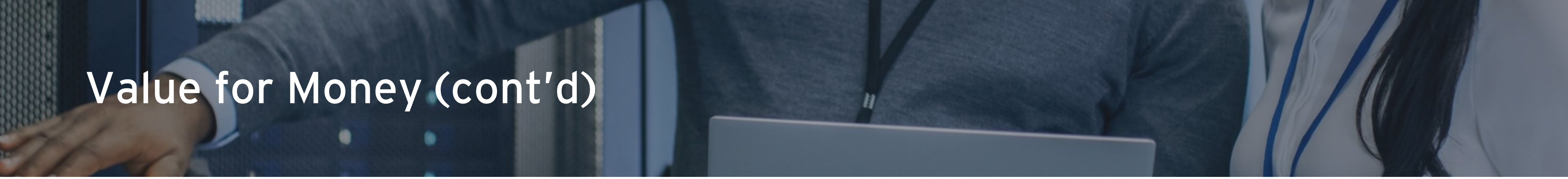
In one area there has been significant progress during the 2023/24 financial year, which was addressing the 2023/24 overspend through financial controls and taking actions against budget forecasts which was lacking in the prior year. The forecast of £20.9m overspend as at July 2023 was reduced to only a £1.1m overspend by the year-end. We also note the Council reported it achieved £37.2m (93%) of its planned savings for the year, a significant improvement compared to the prior year. Therefore, in this regard we make the judgement that the Council has taken action from its financial information (budget reporting), which was lacking in the previous year.

We consider that the significant weakness in arrangements is pervasive across all three main criteria of the value for money arrangements. We set out below the specific sub-criteria impacted and our summary assessment:

<u>Financial sustainability</u>:

- **How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them.**
  - This was not demonstrated in the 2023/24 budget setting process, as identified by the new s151 officer in the July 2023 Medium Term Financial Strategy (MTFS) update and forecast deficit of £20m as at month 3.
  - The Council require receipt of Exceptional Financial Support (EFS) to be able to set a balanced budget for 2024/25
  - It is not currently clear that balanced budgets will be able to be set or achieved for the future, without further EFS.

- **How the body plans to bridge its funding gaps and identifies achievable savings.**
  - The Council has improved significantly in this area – achieving £37.26M (93%) of planned savings in 2023/24
  - The Council has developed a transformation plan to bridge the budget gap in the long term, this includes 28 programmes to generate savings for the Council. These are supported by outline business plans at varying stages of completion
  - However, the Council still requires EFS to balance the budget for 2024/25, they cannot identify sufficient savings to bridge the gap in the short term therefore have not demonstrated sufficient action to remove the designation of significant weakness at this stage



Value for Money (cont’d)

Risk of significant weakness in VFM arrangements

Findings

<u>Governance</u>:

- **How the body approaches and carries out its annual budget setting process –**
  - There was a warning of the likelihood of s114 within the 2023/24 budget, and only 4 months later the MTFS July 2023 review showed likelihood of £20.9m overspend. This showed deficiencies within the budget setting.
  - The Council has been unable to set a balanced budget for 2024/25 without EFS

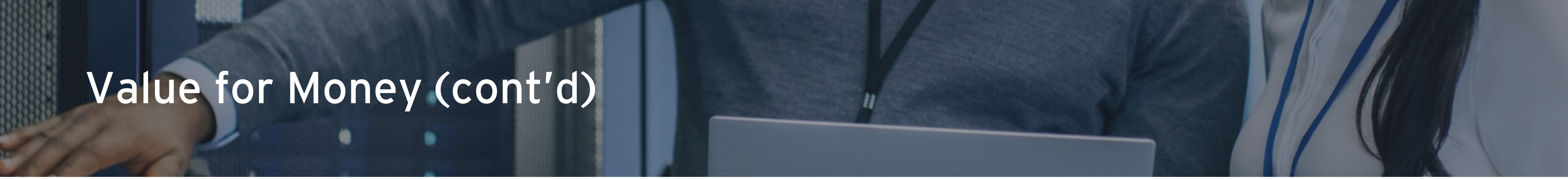
<u>Economy, efficiency and effectiveness</u>:

- **How the body evaluates the services it provides to assess performance and identify areas for improvement –**
  - As previously documented, the Council reported a deficit for 2022/23, reporting on the additional cost pressures as they arose during the 2022/23 year and struggled to achieve the planned savings for 2022/23. The Council had continued to fail to achieve the planned budget for 2023/24, which already included a significant drawdown on reserves.
  - The Council did manage to bring its finances back in control within 2023/24, moving from a forecast deficit position of £20m at month 3 to £1.1m for the year. However, this still included a drawdown from reserves of £10.3m
  - A number of directorates were still overspent during the year – notably
    - Place Directorate – 2.43m
    - Children and learning - £1.41m
  - While this is an improvement, during the year the Council could not set a balanced budget without the use of EFS, which is indicative that the Council, despite having the information of which examples are listed above, has continued to struggle to use that information about its costs and performance to improve its services timely and accurately in 2023/24 with particular reference to identifying areas for improvement where those services can be brought back within budget and includes areas, as an example, of a lack of accurate costing and forecasting new contracts such as home to school transport.

However, we do consider that the Council has made sufficient progress in bringing the 2023/24 outturn under control that the significant weakness no longer covers the following sub-criteria.

<u>Governance:</u>

- **How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information ……; and ensures corrective action is taken where needed**



Value for Money (cont’d)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
Housing standards The risk is that the Council does not have the arrangements in place to meet its regulatory responsibilities with respect to the consumer standards: Neighbourhood and Community Standard, Safety and Quality Standard, Tenancy Standard, and the Transparency, Influence and Accountability Standard, which fall under the remit of the Regulator of Social Housing.	Economy, efficiency and effectiveness: • How financial and performance information has been used to assess performance to identify areas for improvement • How the body evaluates the services it provides to assess performance and identify areas for improvement	We reviewed the Regulatory Notice issued by the Regulator of Social Housing. We considered whether the Regulatory Notice is sufficient evidence of a significant weakness in the Council’s arrangements to maintain its social housing to the standards required.

Findings

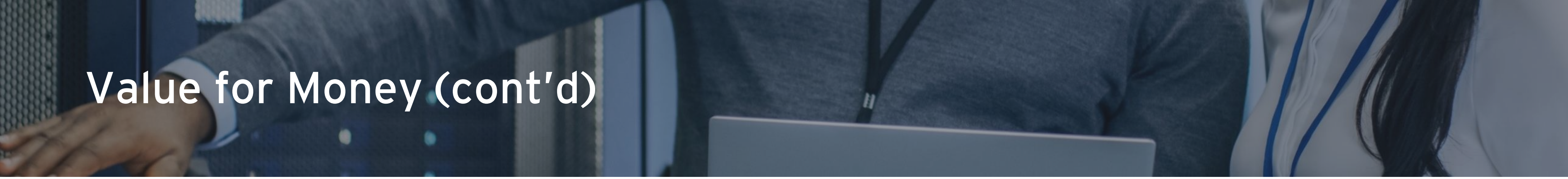
The Regulatory Notice was issued in November 2024 and it states that the review was performed in November 2024. However, given the severity of the notice and findings, it is highly likely that the conditions that lead to the findings have been extant during 2023/24 and potentially earlier. Therefore, we consider the findings as applicable to the value for money assessment for 2023/24.

From the evidence and assurance gained during the inspection, the Regulator concluded that there are serious failings in the Council delivering the outcomes of the consumer standards and significant improvement is needed, specifically in relation to the outcomes in the Safety and Quality Standard and Transparency, Influence and Accountability Standard.

It is clear from the outcome of the Regulatory review that the Council has not properly assessed its performance in the area of social housing and meeting the relevant regulations with sufficient granularity to deliver against the standards required. Therefore, it has not identified areas for improvement or enacted on these. This impacts the following VFM criteria:

Economy, efficiency and effectiveness:

- How financial and performance information has been used to assess performance to identify areas for improvement



Value for Money (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
Supporting statutory functions The risk is that the Council does not have the arrangements in place to sufficiently service its statutory functions, such as supporting the audit of the financial statements and its asset valuations	Governance: • How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements and ensures corrective action is taken where needed	We considered the findings from our experience throughout the audit and conversations with the valuer

Findings

As also set out in other sections through this report, the Council has struggled to support the audit for 2023/24.

- We encountered difficulties in being able to get to the correct populations to perform our sample testing, due the complexities of the management information systems used. The compilation of some of the data to support the financial statements, involved having to trace transactions through a number of excel spreadsheets to get to the correct underlying data, for example, some of the HRA dwelling information.
- We encountered difficulty in obtaining sufficient quality audit evidence to complete our sample testing, and in some cases, we had to pass samples back four times before we received evidence of sufficient quality to complete the work, for example PPE additions testing.

We also encountered frequent periods where our requests were not responded to.

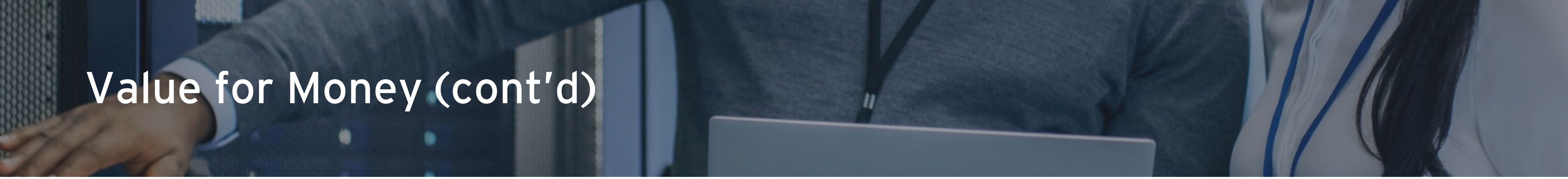
In the case of asset valuations, the Council was unable or unwilling to provide certain evidence to either the valuer or EY to assist in the valuation of the assets and our testing of EUV assets, setting a reasonable range based on the data provided, resulted in all five assets being outside the range and the level of error being such that we were unable to accept the population of assets revalued in 2023/24 using EUV.

One of the main reasons put forward by management as to why they were struggling to provide sufficient audit evidence is the turnover in staff, due to sickness, voluntary redundancy or other reasons for staff leaving. This meant that staff with the knowledge of the transactions were no longer available and other staff members were having difficulty locating the right evidence.

In our judgement this is a significant weakness affecting the following VFM criteria:

Governance:

- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements and ensures corrective action is taken where needed.

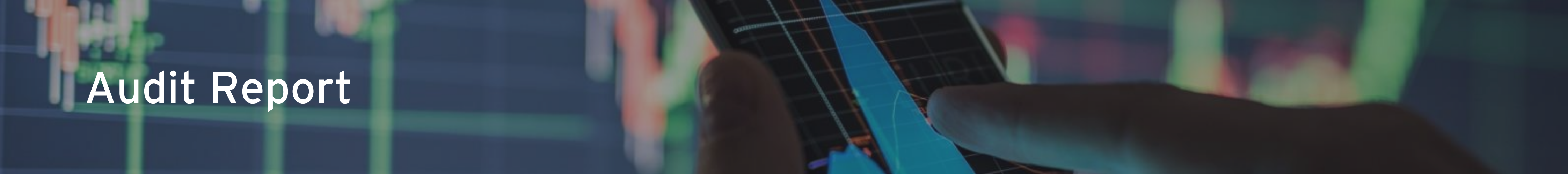


Value for Money (cont'd)

New recommendations in 2023/24

Issue	Recommendation	Management Response
Governance	1. The Council needs to consider how it supports the audit and other statutory requirements, such as asset valuations in the future. 2. The financial statements need to be fully supported by proper listings that can be directly traced through to the financial statements. 3. Officers need to be prepared to respond to audit queries timely and in full, with all evidence provided being quality checked to ensure that it is addressing the request in full.	The statement of accounts closedown process forms part of the Reshaping Financial Management transformation project. At present knowledge of the process is held within a small number of officers. It is important that the organisations recognises the closedown of the accounts is not just a finance function. A restructure of finance is underway to build more resilience into the team especially around the corporate and technical finance team.
Improving economy, efficiency and effectiveness	4. Continue to engage with the Regulator and embed the actions already started.	The council can confirm that it will continue to engage with the housing regulator to implement and embed the recommendations made, as part of its overall housing improvement plan and 'Good Landlord' Programme.

04 Audit Report



Audit Report

Expected modification to the audit report

As reported in our 04 December 2024 Audit Completion Report to Those Charged with Governance, we issued a disclaimed audit report on the Council's financial statements for 2022/23 under the arrangements to reset and recover local government audit. The reasons for the 2022/23 disclaimed audit report were set out in our 2022/23 Audit Completion Report.

As a result of the 2022/23 disclaimed audit report, we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we do not have assurance over 2023/24 in-year movements and some closing balances. We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements

As set out within this report we have also not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over closing balances and in-year transactions.

Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements.

We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

The form and content of the Audit Report will be shared with the Section 151 officer to enable you to formally authorise the 2023/24 financial statements for issue.

05

Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as ‘known’ or ‘judgemental’. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £693,000 which have been corrected by management that were identified during the course of our audit:

- £34.3 million overstatement of the pension liability
- £17.3 million misstatement relating to not appropriately writing out the depreciation of HRA dwellings on indexation – this had a net nil impact on the Balance Sheet and Comprehensive Income and Expenditure Statement. During our testing we identified that the Council had not considered that the indexation of assets was in fact a form of revaluation and therefore had not been writing out the depreciation. This was identified prior to the 2022/23 financial statements being approved and, therefore, the Council amended the 2022/23 financial statements and no prior year adjustment was needed within the 2023/24 statements.

There was one uncorrected misstatement relating to not including an accrual of £1.2 million in relation to accumulated absences as at 31 March 2024.

06

Assessment of Control Environment

Assessment of Control Environment

Financial controls

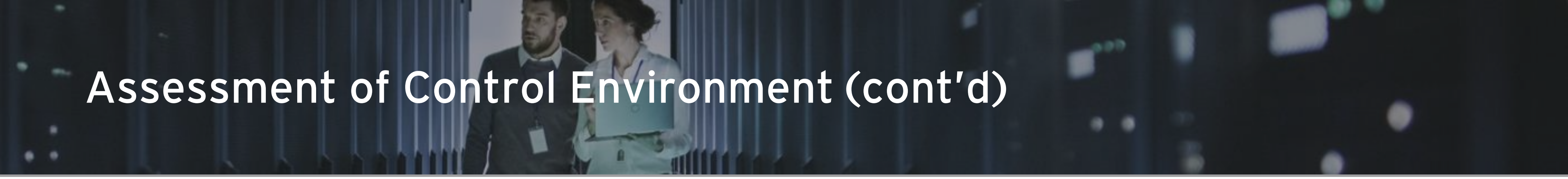
As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you any significant deficiencies in internal control.

We have identified three weaknesses in internal control, which we do not consider to be a significant deficiency, as well as continued scope for improvement in some areas based on our work undertaken, further detail can be found on the next two pages:

- Retention of documentation
- Bank accounts
- Lease data

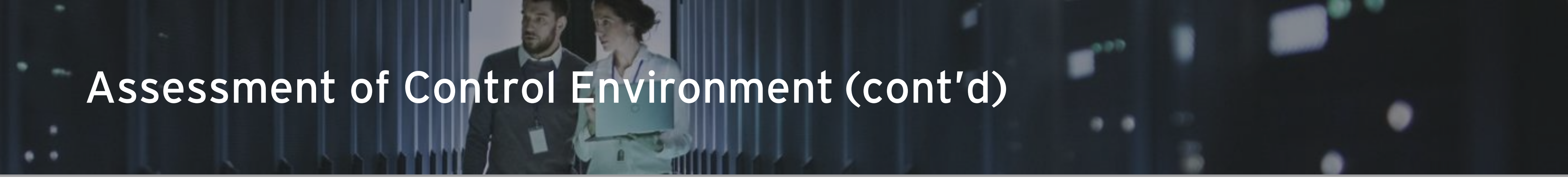
In addition to the control weaknesses identified above, we identified an observation and improvement recommendation in relation to management's financial processes and controls during the audit:

- The Council should document their review and challenge the valuations made by the external valuer to evidence that they are satisfied with the valuations and that all factors have been considered and any judgements made are fully supportable within the Code



Assessment of Control Environment (cont'd)

Area	Retention of documentation	Bank accounts
Observation	The council has experienced some difficulty in locating stored documents in a timely manner. The Council should reassess the current document filing structures and methods and implement improved processes to ensure that all original documentation required to support financial transactions is retained and can be readily located when required.	As a result of our testing, management identified two bank accounts did not have any current signatories and one was noted to us as being with an incorrect bank. Both of these accounts had a nil balance and have since been closed.
Impact	When not able to locate and share documents, the council is not able to support transactions within its financial statements. It is therefore less able to efficiently and appropriately resolve audit queries hence delaying the audit and hindering audit teams' objective of obtaining sufficient and appropriate evidence to gain reasonable assurance.	If the Council does not maintain accurate records in relation to its bank accounts, it risks not being able to access the funds held.
Management comment	Improvements to filing and document storage will be addressed through the Reshaping Financial Management programme. This will include improved use of Technology including Teams for document retention, version control and collaboration/sharing	A thorough review has now been undertaken of bank accounts and signatories updated.



Assessment of Control Environment (cont’d)

Area	Lease data
Observation	During our work over lease commitments, management informed us that a number of leases had not been updated for several years and have not had a rent review or have expired.
Impact	This could lead to significant differences within the lease disclosures and means that the Council is not ready for the implementation of IFRS 16 from 1 April 2024.
Management comment	A thorough review of leases has been undertaken in preparation for IFRS 16, to which the Council can provide working papers. Work is ongoing to reduce the backlog of expired leases and an action will be taken to escalate the issue with the service.

07 Other Reporting Issues

Other Reporting Issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Southampton City Council Statement of Accounts 2023/24 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Southampton City Council Statement of Accounts 2023/24 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, which are performed towards the end of the audit. We cannot issue our Audit Certificate until these procedures are complete.

Other Reporting Issues

Other powers and duties

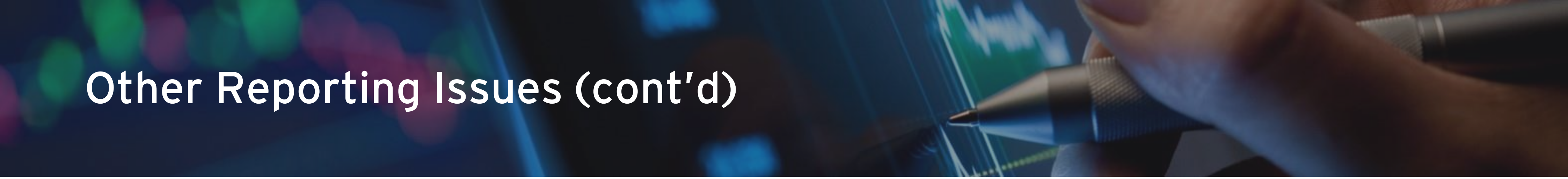
We have a duty under the Local Audit and Accountability Act 2014 (the Act) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We are also able to issue statutory recommendations under Schedule 7 of Section 27 of the Act. Statutory recommendations under Schedule 7 must be considered and responded to publicly and are shared with the Secretary of State.

We received an objection to the 2023/24 accounts, asking us to consider issuing a public interest report due to concerns raised around the controls and value for money within Children's and Adults Direct Payments, and the operational role of Internal Audit in regard to the latter.

We issued our decision on 17 December 2024 and decided not to issue a report in the public interest.

Within our decision we stated we would reflect on the slow progress in responding to the action plan created after the Internal Audit review of Children's Direct Payments in 2021, and include that consideration within our value for money reporting. Responding to Internal Audit reviews has not significantly improved since we concluded there was a significant weakness during our 2022/23 audit, and this slow response is one example. Therefore, as reported in Section 3 of this report, we continue to see this as a significant weakness in the Council's arrangements, of which Children's Direct Payments is one example.

We also made a non-statutory recommendation under Section 27(6) of the Local Audit & Accountability Act 2014 that a follow-up review should not be further deferred. Therefore, we recommend that Internal Audit do undertake their follow-up during Quarter 4 of 2024/25 as planned and report through to the Audit Committee in a timely manner. Any remaining outstanding actions from the initial Internal Audit report should be included in the new action plan tracker that is being compiled for Audit Committee reporting. The Council's Audit Committee should monitor the implementation of any such recommendations through the tracker, ensuring that timely intervention action is taken where necessary



Other Reporting Issues (cont'd)

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report (See section 4);
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We wish to bring the following other matters to your attention:

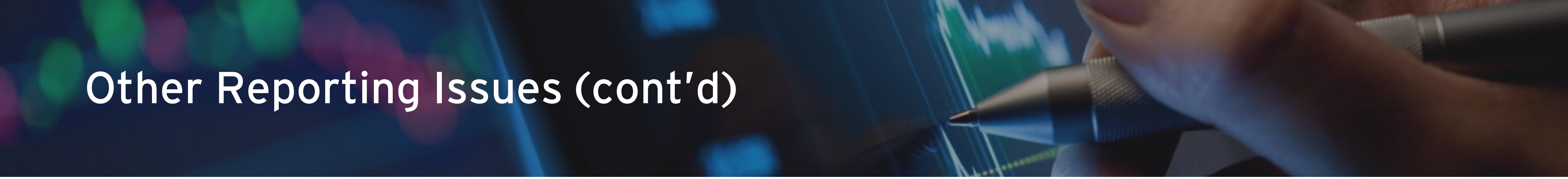
Significant difficulties encountered during the audit

As previously reported in our Audit Progress Report taken to the Audit Committee on 30 September 2024, we have experienced a number of setbacks and delays in performing our audit work, these have continued into the additional time that we have allocated to the audit and have resulted in us not being able to complete the audit in full. The majority of these have not been experienced in previously completed audits.

The issues fall into four key categories:

- Complexity of systems
- Lack of accurate records retained
- Lack of quality evidence supplied (linked to above)
- Delayed and in some cases no response from officers

Further details on each area are on the next page.



Other Reporting Issues (cont'd)

Other matters

Complexity of systems

To enable us to obtain a sample for testing we need to map the general ledger and the trial balance to the financial statements and drill down to detailed transaction listings that we could reconcile direct to the financial statements. This proved to be a challenge due to the following factors:

- Additional mapping needed to be applied to the already transformed data requiring a significant amount of input from the MTFS & Revenue Manager
- Schools' expenditure postings to the general ledger use different codes compared to the school's expenditure codes and it was not possible to reconcile the two perfectly.

The Council provided the data to our analytics requests timely, however, the data request was not in the format which the Council use to generate their financial statements.

In addition to the above, for certain aspects of the financial statements, such as Council Dwellings valuations, we often had to go through a number of workbooks to drill down into a figure. For example, for Council dwellings valuations we had to drill down through 5 workbooks to go through the valuation calculation.

Lack of accurate records retained

The council has experienced some difficulty in locating stored documents in a timely manner. When not able to locate and share documents, the council is less able to efficiently and appropriately resolve audit queries hence delaying the audit and hindering audit teams' objective of obtaining sufficient and appropriate evidence to gain reasonable assurance.

This was particularly apparent for the asset valuation testing and in our testing of the PFI, where reference to original documentation from the inception of the PFI for Street Lighting was not possible. We also encountered specific difficulties with our testing of the lease disclosure as a number of leases had not been updated for several years and there were formula issues within the workbook.

We noted that this issue was also experienced by the external property valuer; in their responses to us regarding the use of 2022/23 car park turnover income they indicated that they had not received all of the requested information, hence the valuation work is based on information for the years that council was able to share. The Council valuation team and asset management team was not able to share with the valuer, or the audit team, car park income relating to 2021/ 22 and the current year 2023/24. Due to this, the audit team applied the 2022/23 income within our calculations, as it was the only supportable evidence provided. The generally accepted method is to use an average of income for the last 3 years, excluding COVID years, to give a more informed valuation of the car parks.

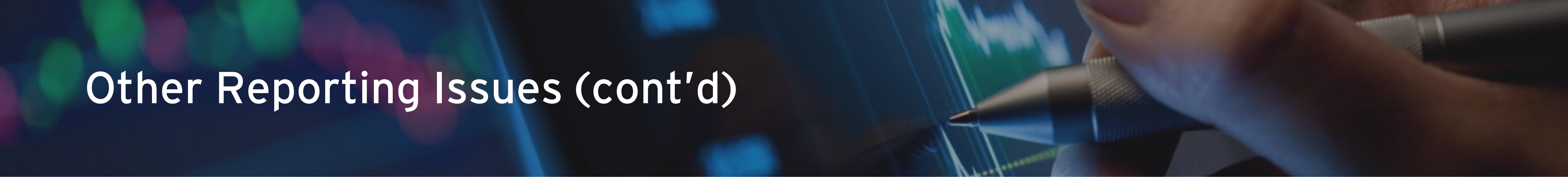
When relevant documents cannot be located during the audit, this may require that additional or alternative procedures be performed which exceed those initially planned or have other consequences. This issue, if not resolved, will become an even greater challenge as we seek to rebuild assurance due to the disclaimed opinion given in 2022/23.

The Council should reassess the current document filing structures and methods and implement improved processes to ensure that all original documentation required to support financial transactions is retained and can be readily located when required.

Lack of quality evidence supplied (linked to above)

During field work, the audit team experienced challenges when receiving supporting evidence. Insufficient supporting documentation or explanations were frequently provided resulting in various samples being sent back to officers with request for further information/evidence and hence multiple reviews by the audit team before completing an area of audit.

We discussed the quality of the evidence being provided with management, who acknowledged that the evidence being provided was not of sufficient quality or the right evidence to support our testing. We also requested that management perform a quality check of the information being provided to us. The final time that this was requested, we were pausing the audit with the intention to return in 2.5 months' time and requested that all evidence that had been provided but not yet tested (as was received after the audit team was due to have completed the audit) and all evidence for the requests not yet provided be reviewed for quality. Management agreed to quality check all future evidence being provided but did not have capacity to quality check the evidence already provided.



Other Reporting Issues (cont'd)

Other matters

As a result of our audit queries, management identified two bank accounts did not have any current signatories and one was noted to us as being with an incorrect bank. Both of these accounts have since been closed.

When evidence has been provided, we have not found significant misstatements (with the exception of valuations).

Delayed, and in some cases no response, from officers

Delays were encountered in receiving evidence from council officers in response to our sample testing or audit queries. In some instances there was no response from many officers, needing escalation through the finance team. The delays particularly impacted our testing of property, plant and equipment and investment properties. For the latest example, responses were received on 17 and 18 December to an e-mail sent on 19 November 2024. The receipt of the information was after the audit team was due to have finished their additional time on the audit, the timing of which had been communicated.

We noted a number of single points of failure where only one officer was able to respond to certain queries and if they were absent, that area of the audit could not progress.

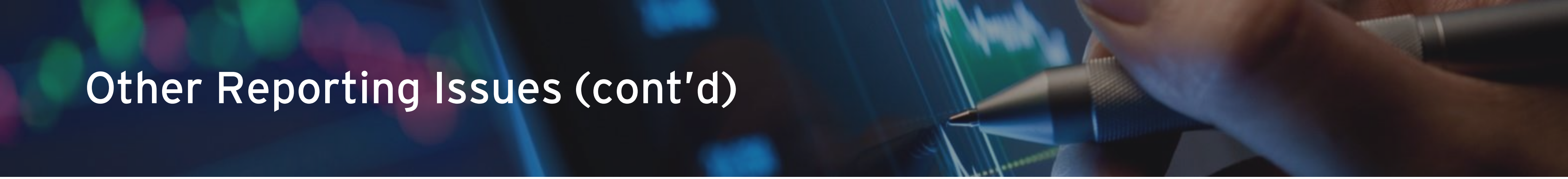
Recommendations

- The financial statements need to be supported by detailed transaction listings that can be readily reconciled back to the financial statements
- The audit team and the finance team need to establish a detailed list of exactly what reports are needed to select the samples
- The Council needs to ensure that its records are maintained in such a way that officers can access invoices and underlying working papers and explanations, even if key officers are off sick or have left the Council
- Officers need to be prepared to respond to audit queries timely in order to be able to complete the audit within planned timescales
- The audit team and the finance team need to establish detailed escalation procedures to ensure audit queries are responded to in a timely manner

Consideration of laws and regulations

We have identified two instances of non-compliance with laws and regulations through the audit:

- Equal Pay claims – the Council received a small number of claims from employees that it had breached equal pay legislation (Equality Act 2010) and it recognised the potential for further claims. The Council is in discussion with the unions on the best way to deal with claims and these discussions are ongoing. We initially requested an assessment paper on whether these claims should be classified as a contingent liability or a provision on 4 September 2024 and whether a post balance sheet event had occurred. We asked the Council to update their assessment paper (which we had not yet received) for any changes arising from their discussions with the unions and whether this impacted their considerations on classification and/or post balance sheet events. We received their paper on 23 December 2024, concluding that this should be classified as a contingent liability. Given the timings, we did not have sufficient time to assess this fully in advance of the backstop date for 2022/23 on 13 December 2024, and may not be able to complete our assessment for the 28 February 2025 backstop date for the 2023/24 accounts. We have raised a number of challenges to management's paper.
- Regulatory Notice from the Regulator for Social Housing – as set out in section 3, the Regulator for Social Housing issued a Regulatory Notice in November 2024 regarding their inspection of the Council and their responsibilities to deliver the consumer standards. The Regulator concluded that there are serious failings in the Council delivering the outcomes of the consumer standards and significant improvement is needed, specifically in relation to the outcomes in the Safety and Quality Standard and Transparency, Influence and Accountability Standard. We concluded this did not have a more than inconsequential impact on the financial statements, but concluded it did represent a significant weakness in the Council's value for money arrangements as set out in Section 3 of this report.



Other Reporting Issues (cont'd)

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

Given that we have disclaimed the 2022/23 audit of the financial statements, we have undertaken ISA (UK) 315 (Revised) procedures for the first time in 2023/24.

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
    - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
    - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

We set out the findings and conclusions from our work to implement ISA 315 in the table below.

Audit Procedures	Audit findings and conclusions
We performed the following procedures: ► We enquired with management as to the relevant IT systems that would impact the statement of accounts for the audit. ► We made subsequent enquiries to understand the key IT process for the relevant material IT systems. This included the manage access, manage change and manage operation processes for these IT systems.	► We identified the Council's general ledger and payroll system (Unit 4 Business World) as relevant material IT systems. ► Our understanding of the IT processes for the Council's material IT systems did not result in any additional audit risks.

08

Independence

Independence - Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your organisation, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

Confirmation

We confirm that, in our professional judgment, EY is independent, our integrity and objectivity is not compromised, and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partner, manager and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

We confirm that we have communicated with the Council, information about the proposed non-audit service to enable them to make an informed assessment about the independence impact of the provision of the proposed services. There are no non-audit services in relation to Southampton City Council.

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2024 and can be found here: EY UK 2024 Transparency Report | EY - UK.

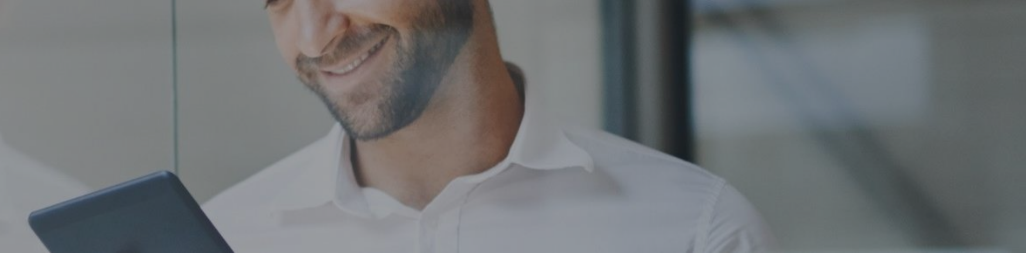
Relationships

There are no relationships from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by EY

There are no services provided by EY from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.



Independence - Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table to the right.

As set out in our Audit Planning Report the agreed fee presented was based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our financial statements opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment
- The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities.

If any of the above assumptions prove to be unfounded, we seek a variation to the agreed fee. Details of our proposed scale fee variations for the audit of the Council are set out in the fee analysis on this page.

All fees exclude VAT

(1) PSAA Ltd, in line with the joint statement issued DLUHC (as at that date) and the FRC is responsible for the determination of the final audit fee in respect of 2022/23. In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

	Current Year	Note reference	Prior Year
	£	£	£
Total Fee – Code Work	372,615	(1)	142,041
Additional work not considered by the scale fee to comply with the requirements of ISA (UK) 315 (Revised).	15,000 - 25,000		-
Testing of the change to the PFI for street lighting, including involving our PFI specialists	8,000 - 10,000		-
Additional work required due to the complexity of the systems and being able to get to populations to test	18,000 - 20,000		-
Additional work required due to the poor quality of evidence provided	10,000 - 12,000		
Additional work performed regarding the IAS 19 pension disclosures, including involving our EY Pensions team and performing re-work due to the issues in the original IAS 19 report from the actuary	3,000 - 4,000		
Additional work performed on asset valuations by our EY Real Estate team	10,000 - 12,000		
Additional work performed with respect to testing the Lease disclosure	1,000 - 2,000		
Additional work required to test the CIES restatement	500 - 1,000		
Additional work in relation to the three risks of significant weakness identified for value for money	10,000 - 15,000		
Objection	10,000 - 14,000		-
Total audit	**TBC**		TBC

09 Appendices

Appendix A - Summary of assurances

Summary of Assurances

As we have set out in Section 5 and the Executive Summary of this report, we anticipate issuing a disclaimer of opinion on the 2023/24 financial statements. Due to the disclaimer of opinion issued on the 2022/23 financial statements, we do not have assurance over the comparative figures disclosed in the financial statements, the opening balance position on 1 April 2023, the closing reserves balances on 31 March 2024 or the in-year movements recorded in the Comprehensive Income and Expenditure Statement. This is considered material and pervasive to the 2023/24 financial statements. The table below summarises the audit work we have completed on the 2023/24 financial statements to demonstrate to the committee the level of assurance that has been obtained as a result of the financial statements audit.

Account area	Assurance rating	Summary of work performed
Property, Plant and Equipment ('PPE')	None	The Council revalued 77 land and building (L&B) assets in 2023/24. We sample tested 18 L&B assets valued using DRC and 5 L&B assets using EUV, and reviewed the accounting for a further 12 schools. At the time of writing this report, we have outstanding queries on 5 L&B assets valued using DRC, 4 in relation to the land values and one in relation to the ground area used by the valuer. Our testing of EUV assets is complete, however, we identified variances in all sample items, including the asset revalued by our EY Real Estates team, resulting in an overall overstatement of £9.7m on a tested value of £21.5m. This 45% overstatement in valuation means that we cannot accept the population of assets revalued using EUV in 2023/24 (£26.9m). As we have been unable to complete our work over asset valuations, we have been unable to gain assurance over the revaluation movements posted through the CIES and into reserves. We sampled 27 items from capital additions in 2023/24, 10 of which still have outstanding evidence or queries and a further 29 items from capital additions in 2022/23, 6 of which still have outstanding evidence or queries. Testing of these items started 12 July 2024, with exchanges back and forth till 3 September, then the next response received was 2 December in relation to 2022/23. Some further exchange then occurred through December with the final information received 23 December after the agreed time finished on 13 December. Our testing of depreciation for 2022/23 and 2023/24 is complete with no significant variances identified. We have been unable to complete our testing of HRA depreciation due to outstanding queries. However, we did identify an issue where the Council was not appropriately writing out depreciation of HRA assets on indexation of £17,256,790. This has been amended in the revised financial statements. Further, we do not have full assurance over the PPE opening balance, due to the disclaimed opinion for 2022/23 meaning we did not test material movements in the fixed asset register for additions, disposals and revaluation in that year (we tested depreciation and tried to test additions). We will begin procedures for the rebuilding of assurance in 2024/25
Investment Property	None	The Council revalued all 155 investment properties in 2023/24. We sample tested 17 investment properties. Our work on the sample of investment properties is ongoing with 14 assets being within a reasonable range and 3 currently outside a reasonable range. Further, we do not have full assurance over the opening balance, due to the disclaimed opinion for 2022/23 meaning we did not test material movements in the fixed asset register for additions, disposals, revaluation and depreciation in that year. We will begin procedures for the rebuilding of assurance in 2024/25 Therefore we only have partial assurance over the revaluation of investment properties. While we do not have assurance over the reclassifications between Investment Property and Assets Under Construction in 2022/23, the balance is immaterial to the Council.
Heritage Assets	Partial	We have completed our planned work in this area for 2023/24, but we do not have full assurance over the Heritage Assets closing balance, due to the disclaimed opinion for 2022/23 meaning we did not test material movements in the fixed asset register for revaluations in that year. We will begin procedures for the rebuilding of assurance in 2024/25.

Appendix A - Summary of assurances

Summary of Assurances

Account area	Assurance rating	Summary of work performed
Long and Short Term Investments	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Short Term Debtors	Partial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024, with the exception of HRA debtors of £9.0 million.
Cash and Cash equivalents	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Borrowings (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Creditors (short term)	Partial	We have not been able to complete our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Capital grants & other contributions received in advance	None	We have been unable to test our 9 sample items as the evidence provided did not match the evidence requested and there was insufficient explanation provided to be able to understand the evidence that was provided. Therefore we have no assurance over these balances. Further as we do not have assurance over movements across the disclaimed period, and therefore the opening balance for 2023/24, we do not have assurance over the Capital Grants RIA balance at 31 March 2024.
Provisions (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Creditors (PFI)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Local Government Pension Scheme Liability	Substantial	Other than the outstanding IAS 19 assurance confirmation from the Hampshire Pension Fund, we have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Reserves	None	We have completed our work on the movements in reserves in 2023/24 but, until we have completed our work programme on the rebuilding of assurance following the disclaimed audit opinions, we are unable to obtain assurance over the useable and unusable reserves of the Council reported in the financial statements. We will provide more information on our proposed approach for rebuilding of assurance as part of our 2024/25 audit planning reports.
Comprehensive Income and Expenditure Statement (including the Collection Fund and the Housing Revenue Account)	None	We have not been able to completed our planned testing on the Comprehensive Income and Expenditure Statement in 2023/24 due to the delays encountered throughout the audit, but, as we do not have assurance over the opening balance position at 1 April 2023, we are unable to obtain assurance that all of the in-year movements recorded in the statement are accurate.
Lease disclosures	None	We were unable to complete our work in this area initially due to issues with the spreadsheet put forward by management. After correcting for the issues we identified, we sent the sample to management on 17 July 2024 (same day we received the updated workbook) and did not receive the response until 20 August 2024 after the audit team had completed their allotted time on the audit.

Appendix B - Required communications with the Audit Committee

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of: ▸ The planned scope and timing of the audit ▸ Any limitations on the planned work to be undertaken ▸ The planned use of internal audit ▸ The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report - March 2024
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report - February 2025

Appendix B - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty related to going concern ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The appropriateness of related disclosures in the financial statements	Audit results report - February 2025
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report - February 2025
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report - February 2025

Appendix B - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report – February 2025
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report – March 2024 Audit results report – February 2025
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report – February 2025
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report – February 2025

Appendix B - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report - February 2025
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit results report - February 2025
System of quality management	▸ How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report - February 2025
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - February 2025
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report - February 2025

Appendix C - Accounting and regulatory update

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit Committee/Board, a number of new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Southampton City Council
IFRS 16 Leases	▸ CIPFA have confirmed there will be no further delay of the introduction of the leases standard IFRS 16. ▸ Assets being used by the Council under operating leases are likely to be capitalised along with an associated lease liability. ▸ Lease liabilities and right of use assets will be subject to more frequent remeasurement. ▸ The standard must be adopted by 1 April 2024 at the latest	▸ We have discussed the Council's readiness to implement IFRS 16 as part of our 2023/24 programme of work. Management had previously performed an initial review and concluded that there was no material impact of IFRS 16 on the Council. ▸ This work had not been updated at the time of the audit, therefore we were unable undertake further detailed work. ▸ Based on this assessment we have concluded that the Council has not yet been able to show it is has reasonable arrangements in place to support the adoption of IFRS 16 in 2024/25.

Appendix D – Management representation letter

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Southampton City Council ("the Council") for the year ended 31 March 2024. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Southampton City Council as of 31 March 2024 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement.

Appendix D – Management representation letter

Management representation letter

Management Rep Letter

6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

- involving financial improprieties;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and

2. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of the Council; Cabinet; Governance Committee and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 12 February 2025.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Appendix D – Management representation letter

Management representation letter

Management Rep Letter

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 1a) to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered including the impact resulting from the commitments made by the Council, and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), aligned with the statements we have made in the other information or other public communications made by us (see section G).

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

Appendix D – Management representation letter

Management representation letter

Management Rep Letter

J. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:
   (1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
   (2) Matters referred to in the letter dated 30 April 2024 issued to you by **the Council's Monitoring Officer.**

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Estimates

1. We confirm that the significant judgments made in making the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision accounting estimates have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision accounting estimates.
3. We confirm that the significant assumptions used in making the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision accounting estimates appropriately reflect our intent and ability to carry out any specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).
5. We confirm that appropriate specialized skills or expertise has been applied in making the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements.

Appendix D – Management representation letter

Management representation letter

Management Rep Letter

N. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

Mel Creighton

Executive Director Enabling Services & Section 151 Officer

____

Councillor Steve Leggett

Chairman of the Audit Committee

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ED None

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DECISION-MAKER:		**AUDIT COMMITTEE**		
SUBJECT:		**RESPONSE AND ACTION PLAN TO IMPROVING THE EXTERNAL AUDITORS VALUE FOR MONEY (VFM) OPINION**		
DATE OF DECISION:		**12 FEBRUARY 2025**		
REPORT OF:		**EXECUTIVE DIRECTOR ENABLING SERVICES & S151 OFFICER**		
CONTACT DETAILS				
Executive Director	**Title:**	**Executive Director Enabling Services & S151 Officer**		
	Name:	**Mel Creighton**	**Tel:**	**023 80833528**
	E-mail:	**Mel.Creighton@southampton.gov.uk**		
Author:	**Title:**	**Director of Finance (interim)**		
	Name:	**Richard Williams**	**Tel:**	**023 8083 2936**
	E-mail:	**Richard.Williams@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

The external auditors 2022/23 value for money opinion and the 2023/4 opinion concluded that there were significant weaknesses in this area following their annual audit. These reports were published in February 2024 and January 2025 with a further update due in March 2025.

The reporting criteria looks at three areas, all of which showed weaknesses:

1. financial sustainability,
2. governance
3. improving efficiency and effectiveness.

Before and since the first report was published the council has undertaken significant work to improve the position. This work, along with the next steps is set out in the report at Appendix 1.

Elsewhere on the Committee’s agenda is a progress update on the external audit of the council’s 2023/24 accounts, and the likely disclaimed opinion that will be provided by the external auditors. We provide a brief response to that in this report

RECOMMENDATIONS:

	(i)	To note the further actions to be taken to improve the external auditors (EY) Value for Money opinion
	ii)	To provide a quarterly update on progress to Audit Committee alongside the quarterly Medium Term Financial Strategy (MTFS) update

iii) To note the Council’s response to the likely disclaiming of the 2023/24 statement of accounts by EY (see the EY report on Audit Finding elsewhere on the Committee Agenda).

REASONS FOR REPORT RECOMMENDATIONS

1. This is an update report for noting

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

CONSULTATION

3. Not applicable.

EY VALUE FOR MONEY OPINION

4. This report informs and updates the Audit Committee on the actions taken to date to address the concerns raised by external audit.

It is key to the council’s recovery and transformation that we plan to address the points raised and we are transparent about how we are going to address these points.

The transformation plan is the main item that addresses the points raised. However rather than the plan simply responding to the value for money conclusion, it sets out a path for the council to become financial sustainable, allowing the organisation to move to investing with purpose to improve the outcomes for residents and the city.

Appendix 1 sets out the issues raised. The appendix also sets out the actions and evidence that have been or will be taken to address the issues raised.

It is recommended that the Audit Committee receive an update on progress each quarter alongside the Medium-Term Financial Strategy (MTFS) and transformation update.

The transformation programme is already underway with evidence of change already happening.

EY 2023/24 EXTERNAL AUDIT RESULTS REPORT

5. The council’s external auditors (EY) have previously reported a disclaimed opinion on the council’s 2022/23 accounts, because of the decision not to audit 2022/23 as part of the national audit reset and recovery process. In their Audit Results report (elsewhere on the Committee’s agenda) EY state that the 2023/24 accounts are also likely to have a disclaimed audit opinion.

They cite difficulty in obtaining evidence, especially to verify opening balances for 2023/24 as the reason for the likely disclaimer. This in the context of working within the backstop dates for audited accounts publication including the need to publish our audited accounts by 28 February 2025. EY

	did not plan to undertake such verification as part of the 2023/24 audit, and therefore the disclaim opinion is a likely outcome irrespective of any action or shortcomings by the council in providing the necessary information. The council is however reviewing its internal processes and management arrangements ahead of the 2024/25 audit to address the issues raised by EY in their report in respect of the timeliness and completeness of information it provides to the auditors.
RESOURCE IMPLICATIONS	
Capital/Revenue	
6.	Not applicable
Property/Other	
7.	Note applicable
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
8.	
Other Legal Implications:	
9.	None
RISK MANAGEMENT IMPLICATIONS	
10.	None beyond those set out in the accompanying report
POLICY FRAMEWORK IMPLICATIONS	
11.	Not applicable.

KEY DECISION?	**~~Yes~~/No**
WARDS/COMMUNITIES AFFECTED:	**None**
SUPPORTING DOCUMENTATION	
Appendices	
1.	Response to the EY Value for Money (VFM) Conclusion
2.	

Documents In Members' Rooms

1.	

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	~~Yes~~/No
Privacy Impact Assessment	

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		~~Yes~~/No
Other Background Documents **Other Background documents available for inspection at:**		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	

Response to VfM Conclusion

January 2025

Agenda Item 6
Appendix 1

adapt | grow | thrive

SOUTHAMPTON
CITY COUNCIL

SCC Action Plan - Financial Sustainability Recommendations

Key questions:

- How will the body ensure that it identifies all the significant financial pressures that are relevant to its short and medium term plans and builds these into them.
- How the body plans to bridge it funding gaps and identifies achievable savings

2022/23 VFM Recommendation	2023/24 VFM interim findings	Further progress
Consider all options for savings to reduce the pressure on reserves and set a balance budget	The Council still requires EFS to balance the budget for 2024/25, they cannot identify sufficient savings to bridge the gap in the short term therefore have not demonstrated sufficient action to remove the designation of significant weakness at this stage	The Council will be setting a balance budget in 2025/26 following a significant reduction in the amount of EFS required for 24/5. This is mainly due to strengthened financial management and the implementation of transformation programmes.
Savings need to be supported by robust delivery plans and monitored closely to ensure that they are achieved within planned timeframes.	The Council has improved significantly in this area – achieving £37.26M (93%) of planned savings in 2023/24	The Council has developed business cases and delivery plans for each saving proposal alongside a robust programme governance arrangements for delivery.
The Council needs to demonstrate that it can operate within its planned budget and control its expenditure, across all services.	No direct update	The Council is reporting a positive financial position that allows us to reduce the requirement for Exceptional Financial Support A number of measures have been introduced to strengthen this area. 1. Accountability Statements 2. Budget Review Group chaired by the Chief Executive 3. Monthly reporting

SOUTHAMPTON
CITY COUNCIL

SCC Action Plan - Financial Sustainability Recommendations

Key questions:

- How will the body ensure that it identifies all the significant financial pressures that are relevant to its short and medium term plans and builds these into them.
- How the body plans to bridge it funding gaps and identifies achievable savings

2022/23 VFM Recommendation	2023/24 VFM interim findings	Further progress
A transformation plan to underpin savings into the medium term needs to be developed	The Council has developed a transformation plan to bridge the budget gap in the long term, this includes 28 programmes to generate savings for the Council. These are supported by outline business plans at varying stages of completion	Phase 2 of this plan is currently being developed to continue the transformation work and culture change programme.

SCC Action Plan – Governance Recommendations

Key questions:

- How the body approaches and carries out its annual budget setting process

2022/23 VFM Recommendation	2023/24 VFM interim findings	Further progress
The Council needs to ensure that it holds officers to account regarding delivering services within agreed budget.	we do consider that the Council has made sufficient progress in bringing the 2023/24 outturn under control that the significant weakness no longer governance	The processes detailed previously need to embedded in the coming year with the new Chief Executive
Action plans agreed as a response to internal audit findings should be addressed in a timely manner		These are now covered via an internal audit tracker that is reported as part of the performance report. This needs to be a continued focus on the executive management team
	The Council needs to consider how it supports the audit and other statutory requirements, such as asset valuations in the future. 2. The financial statements need to be fully supported by proper listings that can be directly traced through to the financial statements. 3. Officers need to be prepared to respond to audit queries timely and in full, with all evidence provided being quality checked to ensure that it is addressing the request in full.	The statement of accounts closedown process forms part of the Reshaping Financial Management transformation project. At present knowledge of the process is held within a small number of officers. It is important that the organisations recognises the closedown of the accounts is not just a finance function. A restructure of finance is underway to build more resilience into the team especially around the corporate and technical finance team.

SCC Action Plan – Economy Efficiency and Effectiveness

Key questions:

- How the body evaluates the services it provides to assess performance and identify areas for improvement

2022/23 VFM Recommendation	2023/24 VFM interim findings	Further progress
The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 and 2023/24 to date to ensure that it can improve the way it manages and delivers its services.	The Council did manage to bring its finances back in control within 2023/24, moving from a forecast deficit position of £20m at month 3 to £1.1m for the year. However, this still included a drawdown from reserves of £10.3m The Council could not set a balanced budget without the use of EFS, which is indicative that the Council, has continued to struggle to use information about its costs and performance to improve its services timely and accurately in 2023/24 with particular reference to identifying areas for improvement where those services can be brought back within budget and includes areas	The council will be bringing forward a balanced budget and balance Medium Term Financial Strategy in February 2025. However, this budget will rely on the delivery of a significant transformation programme which in itself carries inherent risk due to the amount of change. The financial position of the council will continue to be monitored on monthly basis for the next year until we can be more certain that the changes made have been embedded.
	Housing Standards Continue to engage with the Regulator and embed the actions already started	

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DECISION-MAKER:	**AUDIT COMMITTEE**
SUBJECT:	**INTERNAL AUDIT PROGRESS REPORT 2024-25**
DATE OF DECISION:	**12th FEBRUARY 2025**
REPORT OF:	**CHIEF INTERNAL AUDITOR**

CONTACT DETAILS				
Executive Director	**Title**	**ENABLING SERVICES**		
	Name:	**Mel Creighton**	Tel:	**023 8083 3528**
	E-mail	**Mel.Creighton@southampton.gov.uk**		
Author:	**Title**	**CHIEF INTERNAL AUDITOR**		
	Name:	**Elizabeth Goodwin**	Tel:	**023 8083 4616**
	E-mail	**Elizabeth.Goodwin@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:

- Progress made against the agreed annual audit plan.
- Results of audit activities and
- Management’s response to risk that in the CIA’s judgement maybe unacceptable to the Authority

All other PSIAS requirements are communicated in either the charter or annual audit opinion, which are reported separately to this committee at various times throughout the year.

There are a total of 54 audit reviews in the revised plan for 2024/25. To date, 89% of reviews have been completed or are in progress. This represents 22 (41%) items where the report has been finalised, 7 (13%) where the report is in draft and 19 (35%) audits currently in progress.

There are currently no ‘no assurance’ reports or critical exceptions contained in this report for this reporting period.

Internal Audit progress for the period 26th October 2024 to 17th January 2025 is covered in the report attached as Appendix 1.

RECOMMENDATIONS:

	(i)	That the Audit Committee notes the Internal Audit Progress report for the period 26th October 2024 to 17th January 2025.

REASONS FOR REPORT RECOMMENDATIONS	
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
	None
DETAIL (Including consultation carried out)	
	As above
RESOURCE IMPLICATIONS	
Capital/Revenue	
	None
Property/Other	
	None
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
Other Legal Implications:	
	None
RISK MANAGEMENT IMPLICATIONS	
	The report is for note only, there is no decision to be made.
POLICY FRAMEWORK IMPLICATIONS	
	None

KEY DECISION?	**No**
WARDS/COMMUNITIES AFFECTED:	None

SUPPORTING DOCUMENTATION

Appendices	
1.	Internal Audit Progress Report.

Documents In Members' Rooms

1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	**No**

<table>
<tr><td colspan="2">Data Protection Impact Assessment</td></tr>
<tr><td>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</td><td>No</td></tr>
</table>

<table>
<tr><td colspan="2">Other Background Documents
Other Background documents available for inspection at: N/A</td></tr>
<tr><td>Title of Background Paper(s): N/A</td><td>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</td></tr>
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Internal Audit Progress Report

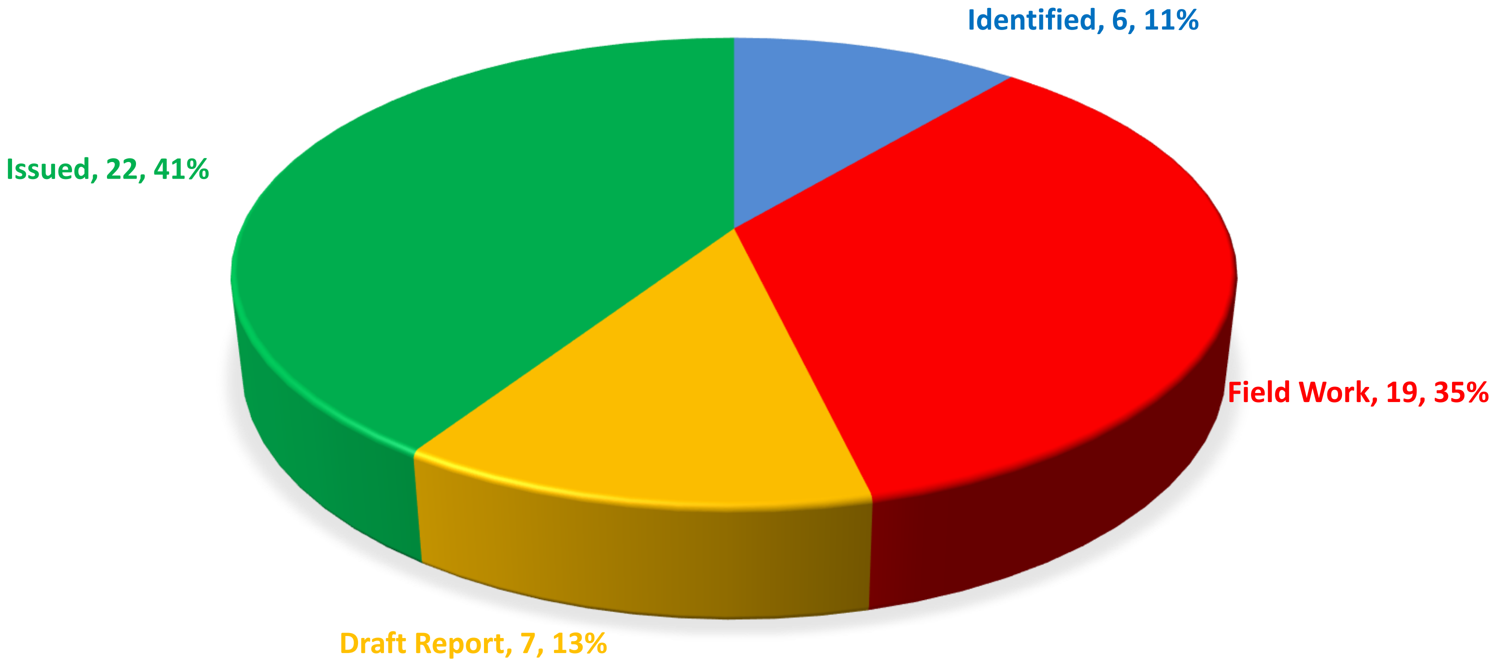
12th February 2025

Elizabeth Goodwin, Chief Internal Auditor

Agenda Item 7

Appendix 1

1. Audit Plan Progress as of 17th January 2025



There are a total of 54 reviews in the 2024/25 Audit Plan as of 17th January 2025.

To date, 89% of reviews have been completed or are in progress. This represents 22 (41%) items where the report has been finalised, 7 (13%) where the report is in draft and 19 (35%) audits currently in progress.

Status	Current Position
Identified	**6**
Fieldwork	**19**
Draft Report	**7**
Final Report	**22**
Total	**54**

2. Audit Plan Status/Changes

The Audit Plan has remained flexible to take into account emerging or escalating risk exposure. Since the last reporting period the following changes to the 2024/25 Audit Plan should be noted:

Added	Contract Review	Added at the request of the s151 Officer due to overspend.	Full
	Disabled Facilities Grant Process Review	Added as a process review is required.	Full

Removed	Annual Governance Statement	Removed to accommodate additional audit.	Full
	Electrical Charging Points Grant	Information not available to undertake review this financial year.	Grant

Any audits removed as noted above will now be considered as part of the 2025/26 audit plan.

3. 2024/25 Audits completed since the last reporting period

Accounts Receivable

Exceptions Raised

Critical	High	Medium	Low
0	0	4	2

Overall Assurance Level

Reasonable

Actions should be implemented by TBC

Assurance Level by Scope Area

Achievement of Strategic Objectives	**No Areas Tested**
Compliance with Policies, Laws & Regulations	**Assurance**
Safeguarding of Assets	**Reasonable**
Effectiveness and Efficiency of Operations	**Reasonable**
Reliability and Integrity of Data	**No Areas Tested**

The first medium risk was raised in relation to Adult Social Care debt recovery currently supressed awaiting representation for clients lacking capacity, there is currently 68 cases requiring active monitoring, establishing the current position it was noted from the Financial Assessment and Benefit (FAB) team that establishing the current position is a time-consuming exercise which risks debts being supressed for a longer duration awaiting reviews. The second medium risk was raised in relation to the suit of reports for the monitoring of the current financial position of debts being under review with further data cleansing being required. The third medium risk was raised in relation to the suspense account which had a balance of £550k at mid-October 2024.

The first low risk exception was raised in relation to the debt write-off policy which was last reviewed in July 2021. The second low risk exception was raised in relation to the timeliness of invoices with raised invoices not dating when goods or services were undertaken.

IT Disaster Recovery

Exceptions Raised

Critical	High	Medium	Low
0	4	1	0

Overall Assurance Level

Limited

Actions should be implemented by August 2025

Assurance Level by Scope Area

Achievement of Strategic Objectives	**Limited**
Compliance with Policies, Laws & Regulations	**No Areas Tested**
Safeguarding of Assets	**Limited**
Effectiveness and Efficiency of Operations	**Limited**
Reliability and Integrity of Data	**No Areas Tested**

The first high risk was raised in relation to the IT Disaster Recovery Plan which is not currently in line with council's needs with the current version dated 2018. As outlined in the Strategic Risk Register, there is limited intelligence regarding what service areas require in terms of IT disaster recovery. The second high risk was raised in relation to the last comprehensive test of arrangements having been completed in 2020 and without a gap analysis exercise on contracts with vendors to ensure the continuity outlined in contracts is up to standard in practice. The third high risk covers business continuity plans with the majority of plans held centrally being dated 2021 or earlier. The fourth high risk was raised in relation to IT content in business continuity plans holding insufficient detail with how they will function and deal with a lack of data in the period when systems are recovered. A low risk exception was raised in relation to out of hours cover being based on goodwill rather than a rota or requirement outlined in staff's contracts.

Payroll

Exceptions Raised				Overall Assurance Level
Critical	High	Medium	Low	Reasonable
0	0	3	0	Actions should be implemented by September 2025

Assurance Level by Scope Area	
Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	Reasonable
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	No Areas Tested

The first medium risk was raised in relation to the monitoring of non-statutory deductions with testing identifying 1 of 5 'Vivup' deductions (for home/electronic purchases) being over 10% of an employee's annual salary which is against policy. It was also noted that alongside pensions there are now additional schemes available including car, cycling, home and electronic good schemes etc. Without a more automated monitoring of deductions there is a risk that an employee could use a number of benefits on offer which when combined could result in a breach of the National Living Wage. The second medium risk was raised in relation to management trails with testing identifying the faster payment forms saved in the corporate folder not capturing the management approval although they were found in email form. Testing also found that 2 of the 15 overtime claims did not include a reasonable description to establish why it was being claimed. The final medium risk was raised in relation to the new movers' process with testing identifying one mover form has not been actioned resulting in a delay in pay to the employee.

Purchase Cards

Exceptions Raised

Critical	High	Medium	Low
0	0	2	0

Overall Assurance Level

Reasonable

Actions should be implemented by March 2026

Assurance Level by Scope Area

Achievement of Strategic Objectives	**No Areas Tested**
Compliance with Policies, Laws & Regulations	**Assurance**
Safeguarding of Assets	**Reasonable**
Effectiveness and Efficiency of Operations	**Reasonable**
Reliability and Integrity of Data	**No Areas Tested**

The first medium risk was raised in relation to the corporate amazon card as testing identified 155 transactions dating back to April 2024 waiting in the workflow taskbar for action. A conversation with Contracting and Procurement Services identified that these are managed by one manager centrally which means there is a single point of failure. Furthermore, this administrative role should sit at a lower pay scale or move back to budget holders. The second medium risk was raised in relation to an outstanding workflow change to incorporate a control mechanism to make budget holder authorisations a mandatory step in the purchase card purchasing process.

Unregulated Placements

Exceptions Raised

Critical	High	Medium	Low
0	4	1	0

Overall Assurance Level

Limited

Actions should be implemented by December 2024

Assurance Level by Scope Area

Achievement of Strategic Objectives	**No Areas Tested**
Compliance with Policies, Laws & Regulations	**Limited**
Safeguarding of Assets	**No Areas Tested**
Effectiveness and Efficiency of Operations	**Limited**
Reliability and Integrity of Data	**No Areas Tested**

The first high risk exception relates to testing of the case files for 10 young people in supported accommodation where 5/10 placement plans could not be located. The second high risk was raised in relation to a lack of recording of accommodation due diligence being undertaken. Of the 31 properties accommodating young people under SCC's care, 14 (45%) of these properties are recorded as not having received a visit from SCC. Further testing confirmed that these 14 had been registered with Ofsted and 6 had been visited by Ofsted and received a certificate. The remaining properties should shortly be receiving standard Ofsted visit. The third high risk was raised in relation to the authority requirement to notify the independent reviewing officers (IROs) at least within five days of placement with testing identifying 3/10 notifications being over 5 days with one bring as long as 38 days after placement. The final high risk was raised in relation to the placement budget holder authorisations appearing to take place on average, 22 days after the placement has started. The medium risk was raised in relation to 2/5 providers not being on the Ofsted website, however they had received Ofsted identification numbers which suggests they are registered.

Valentine Primary School

Exceptions Raised

Critical	High	Medium	Low
0	1	1	0

Overall Assurance Level

Reasonable

Actions should be implemented by April 2025

Assurance Level by Scope Area

Achievement of Strategic Objectives	**Reasonable**
Compliance with Policies, Laws & Regulations	**Limited**
Safeguarding of Assets	**Reasonable**
Effectiveness and Efficiency of Operations	**No Areas Tested**
Reliability and Integrity of Data	**No Areas Tested**

A high risk exception was raised due to the school not having a contract register in place. A review of expenditure found that 14 suppliers had been paid in excess of £10,000 this financial year but testing was unable to place assurances, from the information provided, that the Contract Procedure Rules had been followed. Testing was able to evidence value for money discussions in Governing Body minutes. Furthermore, a review of 5 purchases highlighted that purchase orders were not being raised. The medium risk exception was raised in relation to a lack of separation of duties for inventory asset audits which are undertaken by the same person who is responsible for recording and updating the asset inventory.

4. 2024/25 Follow Up Audits since the last reporting period

Voids

Original Exceptions Raised

Critical	High	Medium	Low
0	1	1	0

Latest implementation date scheduled for follow up action is July 2024

Original Assurance Level		Follow up Assurance
Limited	➡	Limited

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	1 (High) 1 (Medium)	0	0	0	0	0

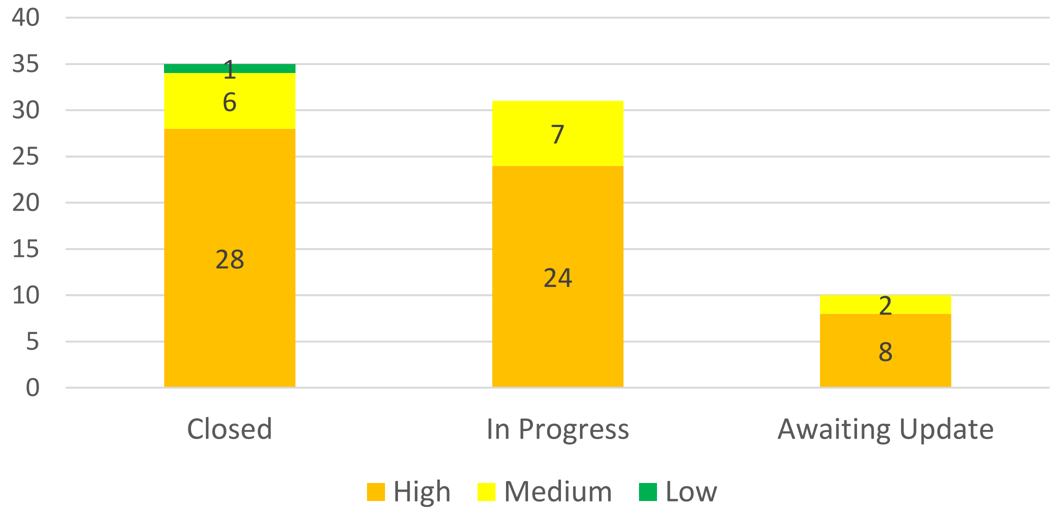
Follow up testing was able to establish that the peak in the voids backlog looks to have occurred in January 2024 with 446 properties empty and therefore not collecting rent. As of August 2024, the number of voids properties had reduced to 334 (25% decrease) and given the additional resources this would indicate the inflexion point has been reached and the number of voids is gradually reducing. However, even at these elevated levels the rent loss associated with void properties is high and therefore the high risk remains in progress. It should also be noted that the time taken for routine voids turnaround has reduced from 133 to 115 days (13.5% decrease) which remains elevated. For major works the turnaround time has increased from 278 to 338 days (21.5% increase). This would be an indication that the reduction noted is in response to an increase in capacity rather than requiring less maintenance work or through more efficient processes.

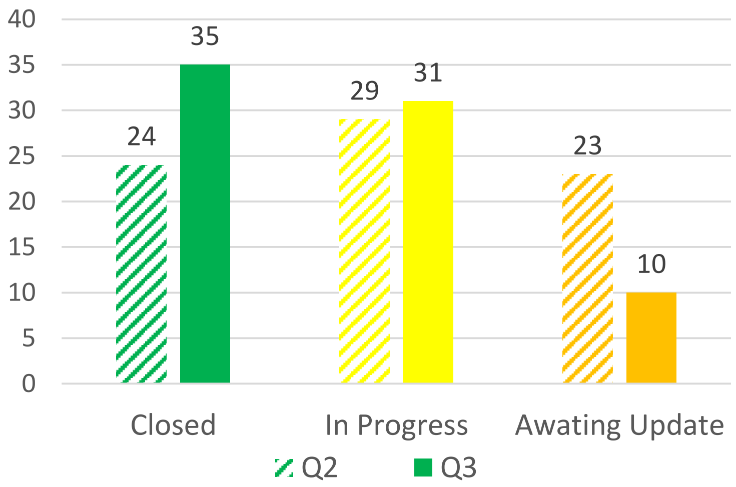
The medium risk relating to void records remains in progress as void procedures are reviewed as part of a Lean Consultant review looking at the voids workstream and its interdependencies as well as a diagnostic review which was undertaken by Newton Europe. These reviews have resulted in a phase 2 improvement plan aimed at increasing productivity, improving the materials/logistic workstream, increasing tenancy inspections and better void property allocations. Until these changes have been implemented and are assessed as effective the medium risk remains in progress.

5. Audit Action Tracker

5.1 An Audit Action Tracker has been rolled out across the authority which lists outstanding actions raised in audit reports. The tracker includes details on ownership, status, progress and timeframes in a user friendly SharePoint site. The purpose of the tracker is to provide Senior Managers and Directors additional means to maintain greater visibility and oversight of outstanding actions in their services/directorates and to ensure greater traction when it comes to implementation.

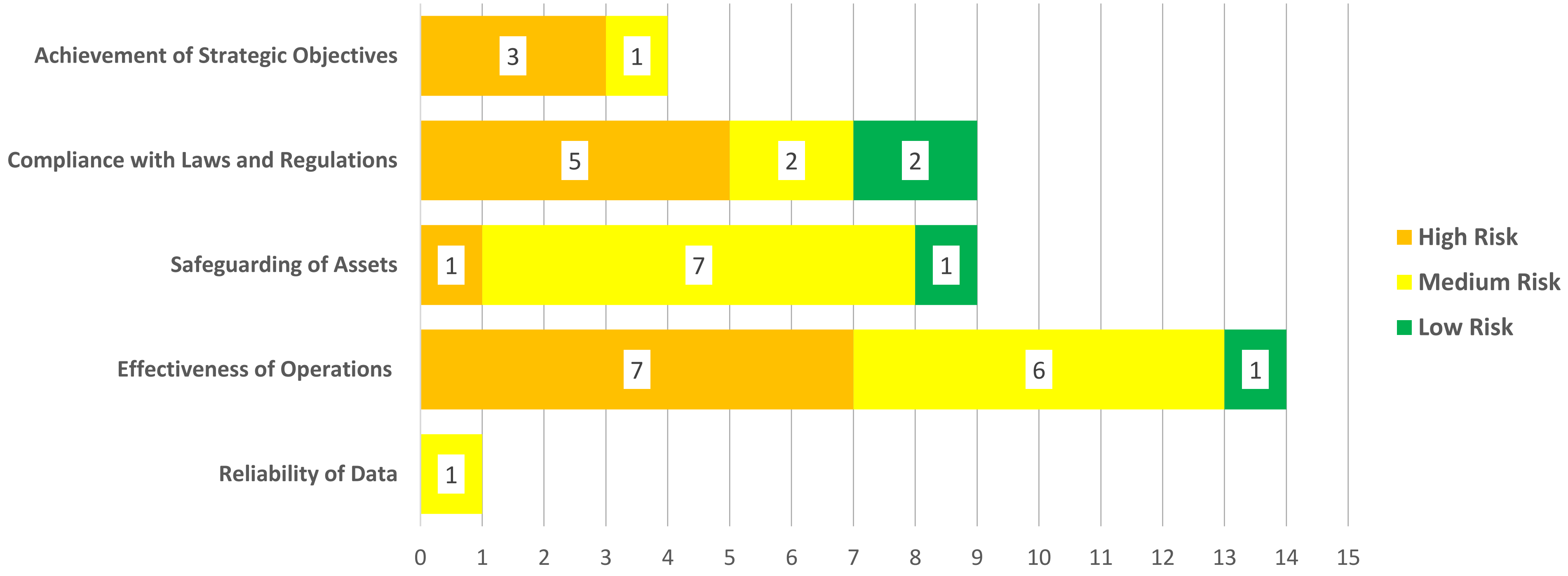
5.2 Action owners are ultimately responsible for ensuring that actions they have agreed to have been completed and the risk exposure has been adequately reduced or mitigated. Internal Audit will follow up on a number of actions/audits based on the risk profile, of the 152 actions in the tracker, 76 (50%) will be followed up by Internal Audit with the remaining 52 (50%) delegated to the service with some routine checking being undertaken by audit. Details on the progress can be found below:





5.3 Of those 76 actions delegated to the service, as of 7th January; 35 (46%) have been closed down with a further 31 (41%) currently listed as in progress. The remaining 10 (13%) were awaiting an update from the service. Internal Audit will return to each DMT on a quarterly basis to report on the directorates progress and to raise by exception the open actions which have gained little traction, or which are still significant control weaknesses.

6. Exception Analysis to Date



	Achievement of Strategic Objectives	Compliance	Safeguarding of Assets	Effectiveness of Operations	Reliability & Integrity	Total
Critical Risk						
High Risk	3	5	1	7		16
Medium Risk	1	2	7	6	1	17
Low Risk - Improvement		2	1	1		4
Grand Total	**4**	**9**	**9**	**14**	**1**	**37**

DECISION-MAKER:		**AUDIT COMMITTEE**		
SUBJECT:		**STATEMENT OF ACCOUNTS 2023/24**		
DATE OF DECISION:		**12 FEBRUARY 2025**		
REPORT OF:		**EXECUTIVE DIRECTOR ENABLING SERVICES & S151 OFFICER**		
CONTACT DETAILS				
Executive Director	**Title:**	**Executive Director Enabling Services & S151 Officer**		
	Name:	**Mel Creighton**	**Tel:**	**023 80833528**
	E-mail:	**Mel.Creighton@southampton.gov.uk**		
Author:	**Title:**	**MTFS & Revenue Manager**		
	Name:	**Stephanie Skivington**	**Tel:**	**023 80832692**
	E-mail:	**Stephanie.Skivington@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2015 (as amended) the Draft Statement of Accounts 2023/24 was signed by the Executive Director Enabling Services & S151 Officer on 28 May 2024 ahead of the 31 May 2024 deadline. The Committee is required to consider and approve the audited accounts before they are published. The Accounts and Audit (Amendment) Regulations 2024, which came into force on 30 September 2024, set a backstop date of 28 February 2025 for publishing the audited 2023/24 accounts.

The year-end audit, carried out by our auditors Ernst & Young LLP, commenced on 10 June 2024 and had not been concluded at the time of writing this report. This report details the changes made to the Statement of Accounts and unadjusted audit differences arising from the findings of the audit to date. A copy of the updated Statement of Accounts is available in the Members' Room.

RECOMMENDATIONS:

	(i)	Notes the changes to the Statement of Accounts 2023/24 as a result of the annual audit as detailed in paragraphs 5 to 7 and appendix 1, none of which change the overall bottom line position for the Council for 2023/24.
	(ii)	Notes the changes made to the Annual Governance Statement (included within the updated Statement of Accounts document) since the draft version presented to the Audit Committee in July 2024.
	(iii)	Approves the rationale for not correcting the audit difference relating to accumulated absences as set out in paragraphs 9 and 10.

(iv) Considers and approves the updated Statement of Accounts 2023/24 and Annual Governance Statement included within it.

(v) Resolves that the Executive Director Enabling Services & S151 Officer, after consultation with the Chair of the Committee, can make any further changes to the Statement of Accounts 2023/24 and Annual Governance Statement that may arise during completion of the audit.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement that the statement of accounts 2023/24 is considered and approved by this committee and signed by the person presiding at this meeting prior to publication. The legislation sets a deadline date for publication of 28 February 2025 (the backstop date).

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The statement of accounts has been prepared in accordance with statutory requirements. No other options have been considered as it is a legal requirement that the statement of accounts is approved by the committee and signed by the person presiding at this meeting.

DETAIL (Including consultation carried out)

CONSULTATION

3. Not applicable.

STATEMENT OF ACCOUNTS

4. The statement of accounts is a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of the committee were presented to the Audit Committee at its meeting on 29 July 2024. A copy of this is available in the Members’ Room or by following the link below.

Draft Statement of Accounts 2023-24

STATEMENT OF ACCOUNTS AMENDMENTS

5. There are a number of adjustments to the Statement of Accounts arising from the findings of the audit, none of which change the overall bottom line position for the council for 2023/24.

6. The updated Statement of Accounts is available in the Members’ Room. The main adjustments to the statements are outlined below, with further details in Appendix 1:

   - Amendment to Note 12 Property, Plant and Equipment for the change to the treatment of in-year depreciation of council dwellings in 2023/24, and for the prior year, to write it out at 31 March as a revaluation adjustment. Consequential amendment to the HRA depreciation note;
   - Amendments to the primary statements, associated notes and HRA statements for corrections to the demographic assumptions and inflation experience used in calculating the defined benefits pension liability, plus an update of the assets for actual rather than estimated returns.

7. The full details of adjustments to the statements and notes arising from the findings of the audit are detailed in Appendix 1.

8. In addition to the amendments made arising from the findings of the audit, the going concern disclosure in Note 1 has been updated to reflect the latest position.

UNADJUSTED AUDIT DIFFERENCES

9. The Comprehensive Income and Expenditure Statement did not include an accrual for accumulated absences (annual leave carried forward etc.) for non-teaching staff, which was estimated at £1.23M. This is consistent with the accounting treatment in 2022/23. The Code of Practice on Local Authority Accounting (the Code) requires such accruals to be reversed out through the Movement in Reserves Statement so as not to impact the council's bottom line.

10. We have not corrected the accounts for this audit difference because:

- It is below the materiality level;
- There is no overall material variance and no net impact on the General Fund or HRA reported position;
- The uncorrected amounts would not have a material impact on the use and interpretation by users of the statement of accounts – the accrual would represent 0.8% of employee expenditure for 2023/24.

ANNUAL GOVERNANCE STATEMENT

11. The Code requires that the Annual Governance Statement relates to the governance system as it applied during the financial year for the accounts that it accompanies. However, significant events or developments relating the governance system that occur between the reporting date and the date on which the statement of accounts is authorised for issue shall also be reported. The 2023/24 annual governance statement contained within the statement of accounts document has therefore been updated in this respect.

RESOURCE IMPLICATIONS

Capital/Revenue

12. The narrative statement provides a summary of the revenue and capital financial performance for the year on pages 10 to 17. Full details of the outturn position were reported in the revenue and capital outturn reports to Cabinet on 16 July 2024.

Property/Other

13. To date, no changes have been made to the property valuations recognised in the accounts.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

14. Accounts and Audit Regulations 2015 (as amended).

Other Legal Implications:

15. None

RISK MANAGEMENT IMPLICATIONS

16. In order to comply with the backstop date for publishing the audited accounts, the auditors may give a 'disclaimed' audit opinion. Auditors will be expected to give clear reasons for 'disclaimed' opinions to mitigate the possible

	reputational risk for local authorities and ensure they are not unfairly judged as a result of the backstop dates.
POLICY FRAMEWORK IMPLICATIONS	
17.	Not applicable. It should be note that the statement of accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2023/24.

KEY DECISION?	**~~Yes~~/No**
WARDS/COMMUNITIES AFFECTED:	**None**
SUPPORTING DOCUMENTATION	
Appendices	
1.	Schedule of changes to Draft 2023/24 Accounts
2.	

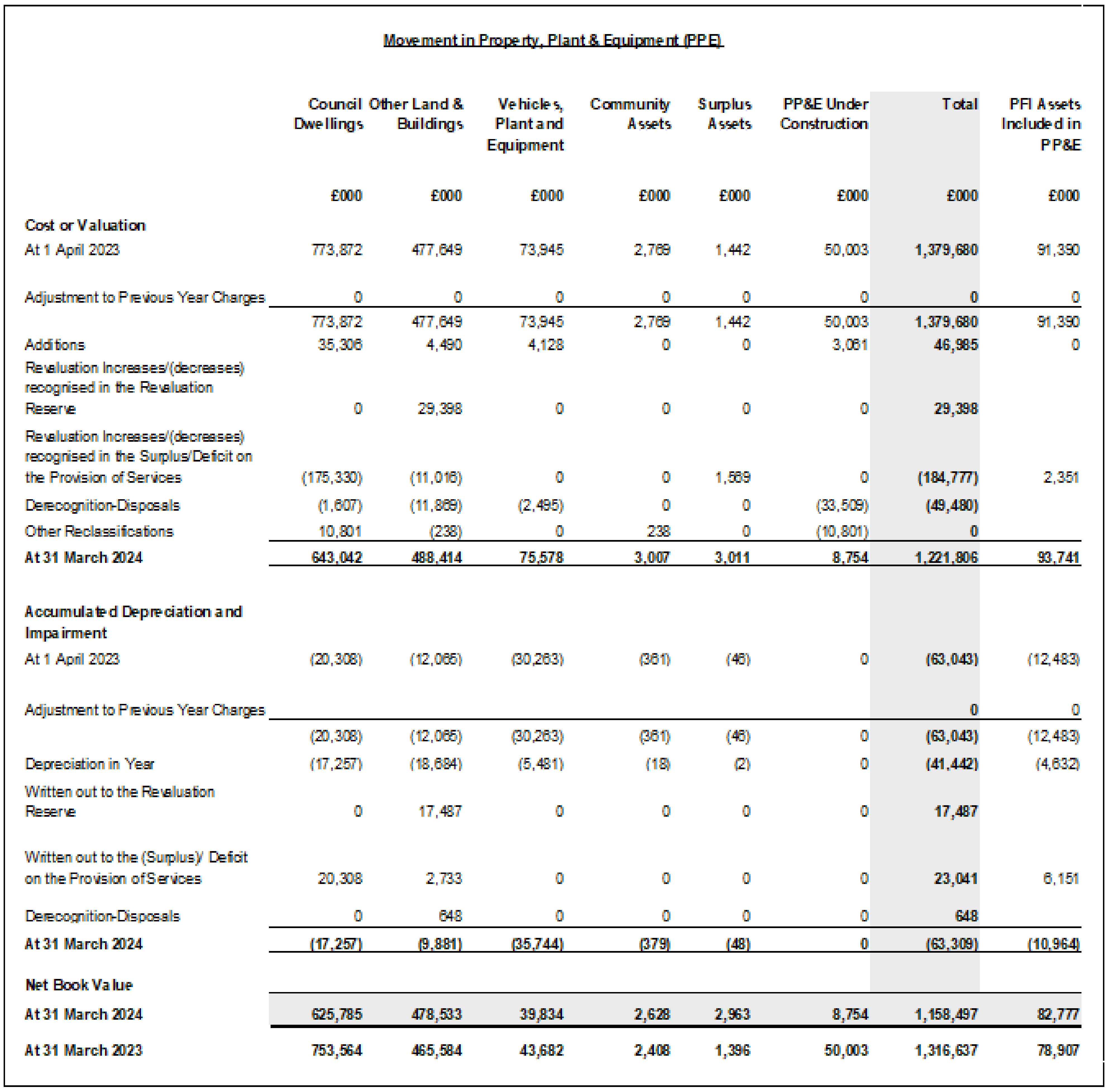
Documents In Members' Rooms

1.	Updated Statement of Accounts 2023/24

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	~~Yes~~/No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	~~Yes~~/No
Other Background Documents **Other Background documents available for inspection at:**	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1. None	

Audit Committee

Revisions made to Statement of Accounts

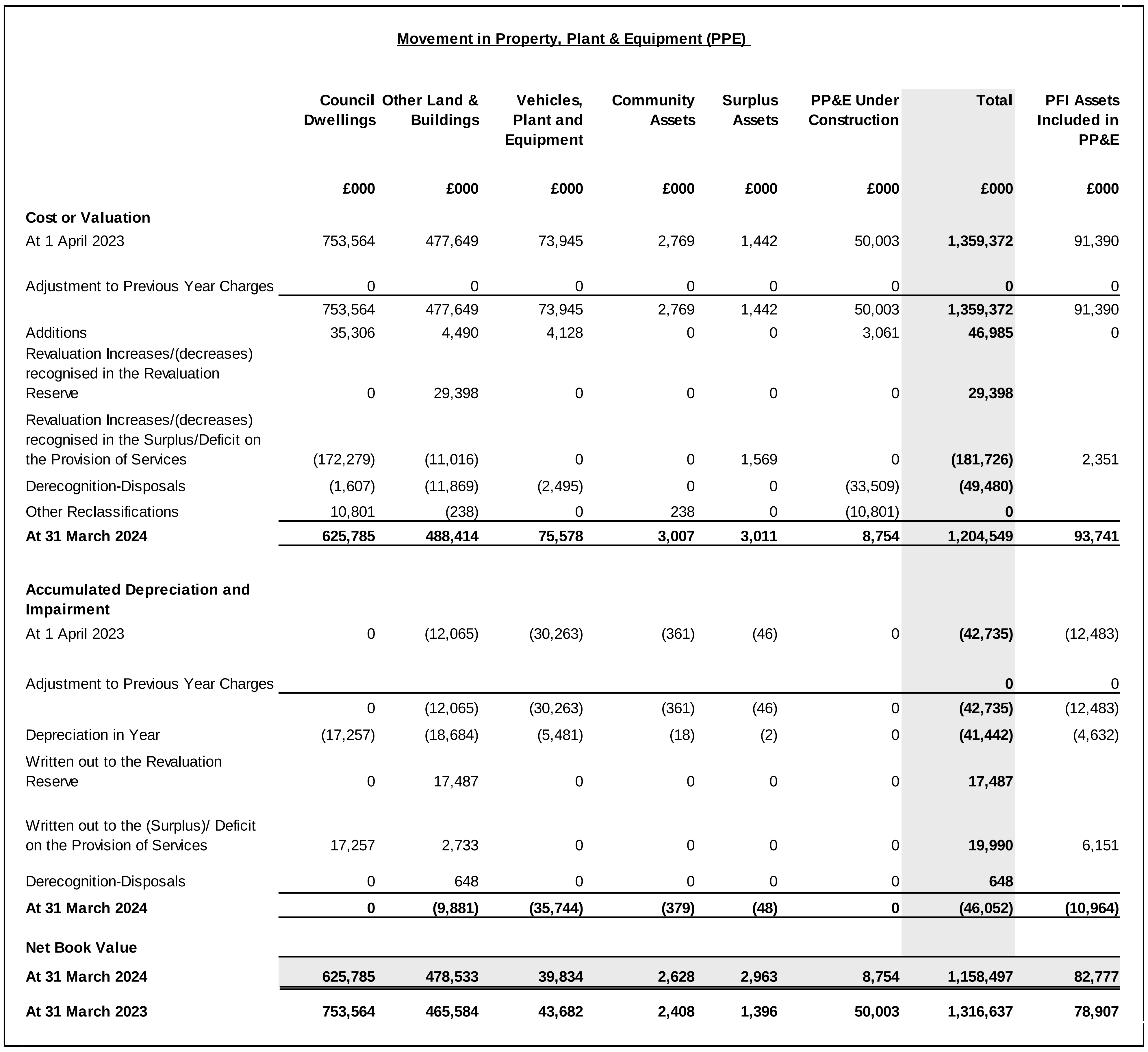
Ref No	Description	Page	Statement/ Note	Detail
1	**Change to the treatment of in-year depreciation of council dwellings in 2023/24 and for the prior year to write it out at 31 March as a revaluation adjustment. £20.3M reduction to Council Dwellings Valuation opening balance and equal and opposite adjustment to Council Dwellings Accumulated Depreciation opening balance. £3.1M change to Council Dwellings revaluation decrease recognised in the Surplus/Deficit on the Provision of Services and equal and opposite adjustment to Council Dwellings depreciation written out to the Surplus/Deficit on the Provision of Services. Consequential change to the HRA depreciation note. There is no change to Council Dwellings net book value and no impact on the outturn position for the HRA.**	59	12	**Property, Plant & Equipment - Movement in PPE** Original 

Movement in Property, Plant & Equipment (PPE)

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2023	773,872	477,649	73,945	2,769	1,442	50,003	**1,379,680**	91,390
Adjustment to Previous Year Charges	0	0	0	0	0	0	**0**	0
	773,872	477,649	73,945	2,769	1,442	50,003	**1,379,680**	91,390
Additions	35,306	4,490	4,128	0	0	3,061	**46,985**	0
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	29,398	0	0	0	0	**29,398**	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(175,330)	(11,016)	0	0	1,569	0	**(184,777)**	2,351
Derecognition-Disposals	(1,607)	(11,869)	(2,495)	0	0	(33,509)	**(49,480)**	
Other Reclassifications	10,801	(238)	0	238	0	(10,801)	**0**	
At 31 March 2024	**643,042**	**488,414**	**75,578**	**3,007**	**3,011**	**8,754**	**1,221,806**	**93,741**
Accumulated Depreciation and Impairment								
At 1 April 2023	(20,308)	(12,065)	(30,263)	(361)	(46)	0	**(63,043)**	(12,483)
Adjustment to Previous Year Charges							**0**	0
	(20,308)	(12,065)	(30,263)	(361)	(46)	0	**(63,043)**	(12,483)
Depreciation in Year	(17,257)	(18,684)	(5,481)	(18)	(2)	0	**(41,442)**	(4,632)
Written out to the Revaluation Reserve	0	17,487	0	0	0	0	**17,487**	
Written out to the (Surplus)/ Deficit on the Provision of Services	20,308	2,733	0	0	0	0	**23,041**	6,151
Derecognition-Disposals	0	648	0	0	0	0	**648**	
At 31 March 2024	**(17,257)**	**(9,881)**	**(35,744)**	**(379)**	**(48)**	**0**	**(63,309)**	**(10,964)**
Net Book Value								
At 31 March 2024	**625,785**	**478,533**	**39,834**	**2,628**	**2,963**	**8,754**	**1,158,497**	**82,777**
At 31 March 2023	**753,564**	**465,584**	**43,682**	**2,408**	**1,396**	**50,003**	**1,316,637**	**78,907**

Revisions made to Statement of Accounts

Ref No	Description	Page	Statement/ Note	Detail
				Revised



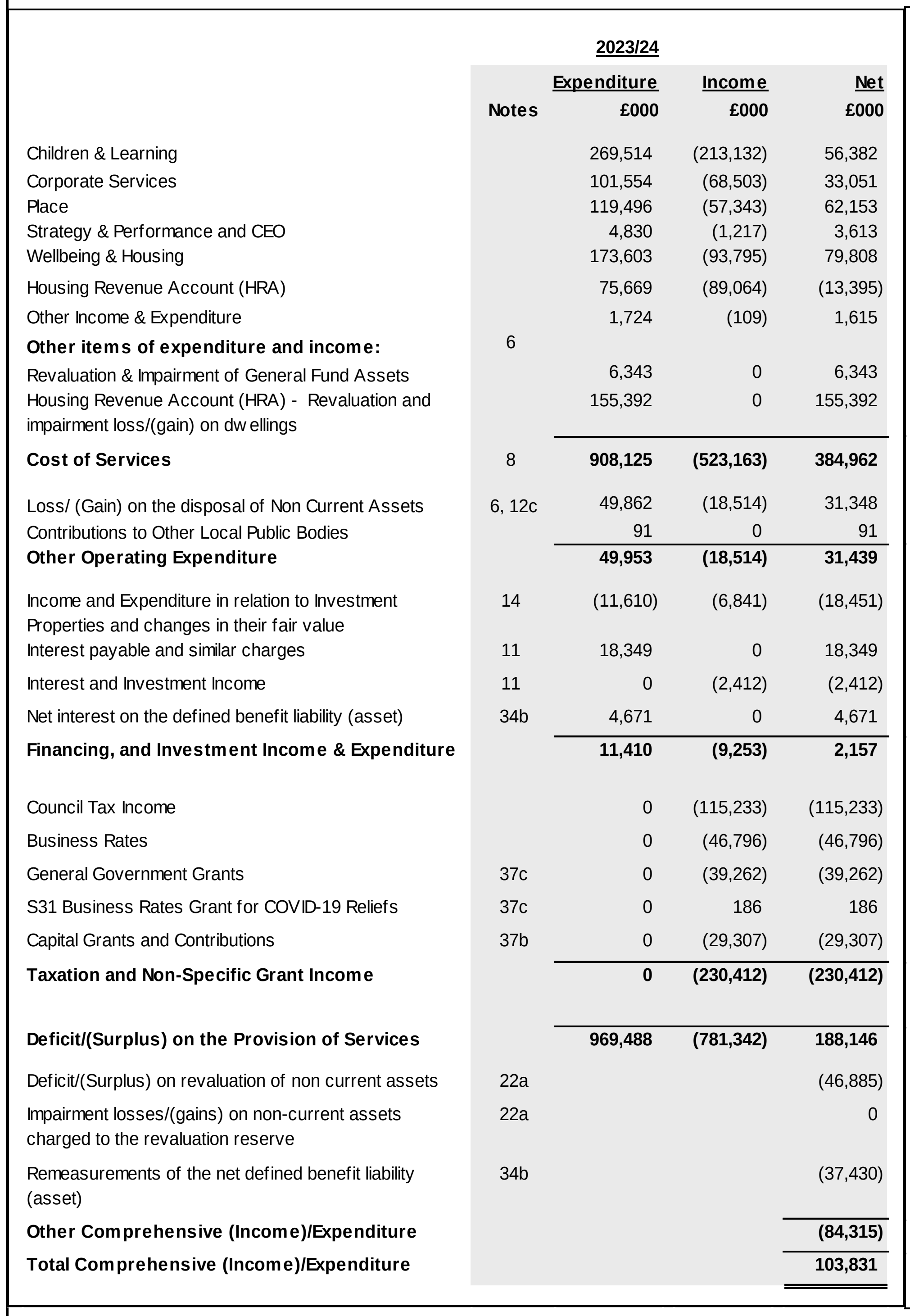
Movement in Property, Plant & Equipment (PPE)

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2023	753,564	477,649	73,945	2,769	1,442	50,003	**1,359,372**	91,390
Adjustment to Previous Year Charges	0	0	0	0	0	0	**0**	0
	753,564	477,649	73,945	2,769	1,442	50,003	**1,359,372**	91,390
Additions	35,306	4,490	4,128	0	0	3,061	**46,985**	0
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	29,398	0	0	0	0	**29,398**	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(172,279)	(11,016)	0	0	1,569	0	**(181,726)**	2,351
Derecognition-Disposals	(1,607)	(11,869)	(2,495)	0	0	(33,509)	**(49,480)**	
Other Reclassifications	10,801	(238)	0	238	0	(10,801)	**0**	
At 31 March 2024	**625,785**	**488,414**	**75,578**	**3,007**	**3,011**	**8,754**	**1,204,549**	**93,741**
Accumulated Depreciation and Impairment								
At 1 April 2023	0	(12,065)	(30,263)	(361)	(46)	0	**(42,735)**	(12,483)
Adjustment to Previous Year Charges							**0**	0
	0	(12,065)	(30,263)	(361)	(46)	0	**(42,735)**	(12,483)
Depreciation in Year	(17,257)	(18,684)	(5,481)	(18)	(2)	0	**(41,442)**	(4,632)
Written out to the Revaluation Reserve	0	17,487	0	0	0	0	**17,487**	
Written out to the (Surplus)/ Deficit on the Provision of Services	17,257	2,733	0	0	0	0	**19,990**	6,151
Derecognition-Disposals	0	648	0	0	0	0	**648**	
At 31 March 2024	**0**	**(9,881)**	**(35,744)**	**(379)**	**(48)**	**0**	**(46,052)**	**(10,964)**
Net Book Value								
At 31 March 2024	**625,785**	**478,533**	**39,834**	**2,628**	**2,963**	**8,754**	**1,158,497**	**82,777**
At 31 March 2023	**753,564**	**465,584**	**43,682**	**2,408**	**1,396**	**50,003**	**1,316,637**	**78,907**

Revisions made to Statement of Accounts

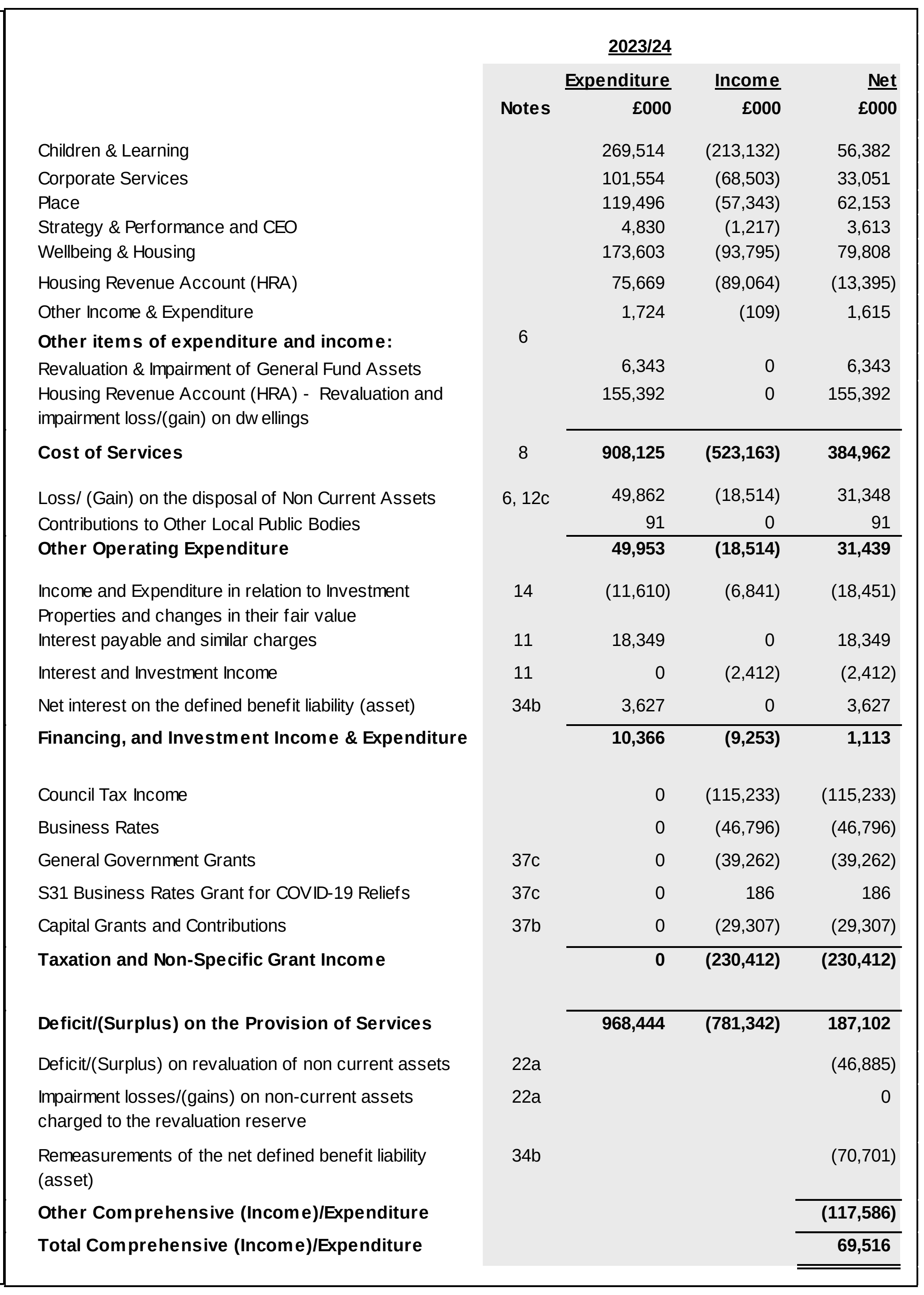
Ref No	Description	Page	Statement/ Note	Detail
2	**Corrections to the demographic assumptions and inflation experience used in calculating the defined benefits pension liability, plus an update of the assets for actual rather than estimated returns. This has reduced the pensions liability from £68.0M to £33.7M and the corresponding Pensions Reserve. The net interest on the defined benefit liability has also reduced from £4.7M to £3.6M. All of the primary statements have been updated and the related notes: Expenditure & Funding Analysis and notes 8, 10, 22, 23 and 34, together with the HRA statements. Only the changes to the primary statements are shown here to not overburden the schedule.**		CIES	
			MiRS	

Original



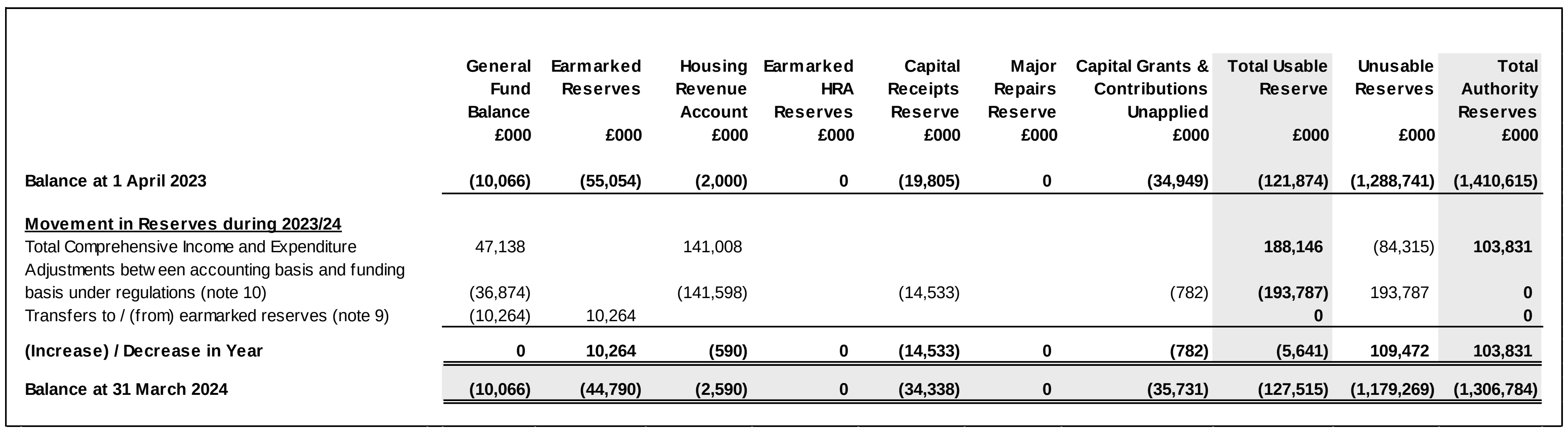
	Notes	2023/24 Expenditure £000	Income £000	Net £000
Children & Learning		269,514	(213,132)	56,382
Corporate Services		101,554	(68,503)	33,051
Place		119,496	(57,343)	62,153
Strategy & Performance and CEO		4,830	(1,217)	3,613
Wellbeing & Housing		173,603	(93,795)	79,808
Housing Revenue Account (HRA)		75,669	(89,064)	(13,395)
Other Income & Expenditure		1,724	(109)	1,615
Other items of expenditure and income:	6			
Revaluation & Impairment of General Fund Assets		6,343	0	6,343
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		155,392	0	155,392
Cost of Services	8	**908,125**	**(523,163)**	**384,962**
Loss/ (Gain) on the disposal of Non Current Assets	6, 12c	49,862	(18,514)	31,348
Contributions to Other Local Public Bodies		91	0	91
Other Operating Expenditure		**49,953**	**(18,514)**	**31,439**
Income and Expenditure in relation to Investment Properties and changes in their fair value	14	(11,610)	(6,841)	(18,451)
Interest payable and similar charges	11	18,349	0	18,349
Interest and Investment Income	11	0	(2,412)	(2,412)
Net interest on the defined benefit liability (asset)	34b	4,671	0	4,671
Financing, and Investment Income & Expenditure		**11,410**	**(9,253)**	**2,157**
Council Tax Income		0	(115,233)	(115,233)
Business Rates		0	(46,796)	(46,796)
General Government Grants	37c	0	(39,262)	(39,262)
S31 Business Rates Grant for COVID-19 Reliefs	37c	0	186	186
Capital Grants and Contributions	37b	0	(29,307)	(29,307)
Taxation and Non-Specific Grant Income		**0**	**(230,412)**	**(230,412)**
Deficit/(Surplus) on the Provision of Services		**969,488**	**(781,342)**	**188,146**
Deficit/(Surplus) on revaluation of non current assets	22a			(46,885)
Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
Remeasurements of the net defined benefit liability (asset)	34b			(37,430)
Other Comprehensive (Income)/Expenditure				**(84,315)**
Total Comprehensive (Income)/Expenditure				**103,831**

Revised



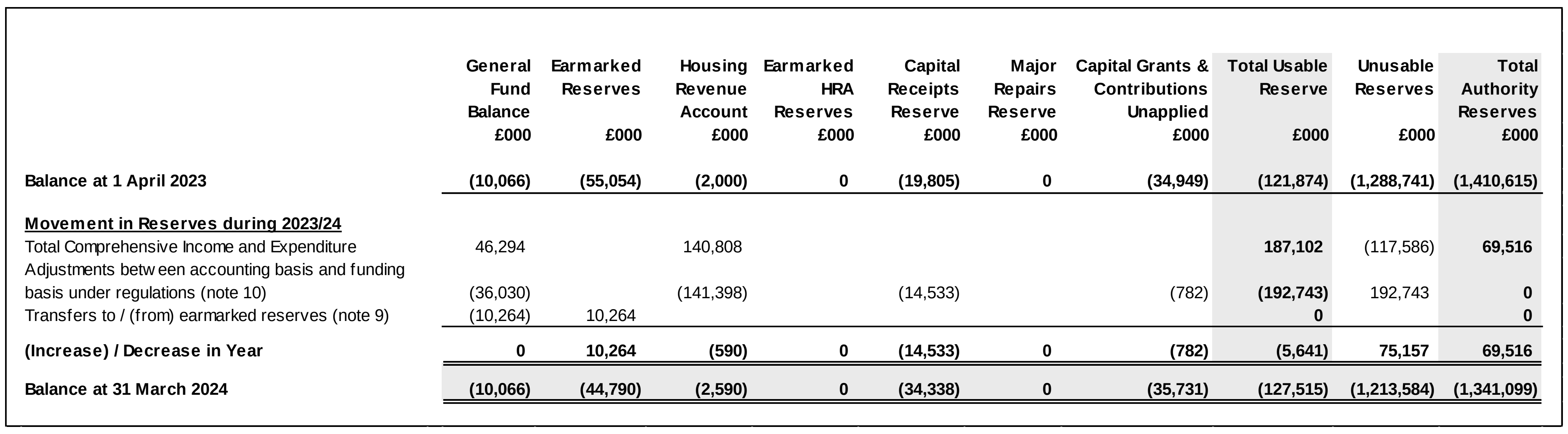
	Notes	2023/24 Expenditure £000	Income £000	Net £000
Children & Learning		269,514	(213,132)	56,382
Corporate Services		101,554	(68,503)	33,051
Place		119,496	(57,343)	62,153
Strategy & Performance and CEO		4,830	(1,217)	3,613
Wellbeing & Housing		173,603	(93,795)	79,808
Housing Revenue Account (HRA)		75,669	(89,064)	(13,395)
Other Income & Expenditure		1,724	(109)	1,615
Other items of expenditure and income:	6			
Revaluation & Impairment of General Fund Assets		6,343	0	6,343
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		155,392	0	155,392
Cost of Services	8	**908,125**	**(523,163)**	**384,962**
Loss/ (Gain) on the disposal of Non Current Assets	6, 12c	49,862	(18,514)	31,348
Contributions to Other Local Public Bodies		91	0	91
Other Operating Expenditure		**49,953**	**(18,514)**	**31,439**
Income and Expenditure in relation to Investment Properties and changes in their fair value	14	(11,610)	(6,841)	(18,451)
Interest payable and similar charges	11	18,349	0	18,349
Interest and Investment Income	11	0	(2,412)	(2,412)
Net interest on the defined benefit liability (asset)	34b	3,627	0	3,627
Financing, and Investment Income & Expenditure		**10,366**	**(9,253)**	**1,113**
Council Tax Income		0	(115,233)	(115,233)
Business Rates		0	(46,796)	(46,796)
General Government Grants	37c	0	(39,262)	(39,262)
S31 Business Rates Grant for COVID-19 Reliefs	37c	0	186	186
Capital Grants and Contributions	37b	0	(29,307)	(29,307)
Taxation and Non-Specific Grant Income		**0**	**(230,412)**	**(230,412)**
Deficit/(Surplus) on the Provision of Services		**968,444**	**(781,342)**	**187,102**
Deficit/(Surplus) on revaluation of non current assets	22a			(46,885)
Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
Remeasurements of the net defined benefit liability (asset)	34b			(70,701)
Other Comprehensive (Income)/Expenditure				**(117,586)**
Total Comprehensive (Income)/Expenditure				**69,516**

Original



	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2023	**(10,066)**	**(55,054)**	**(2,000)**	**0**	**(19,805)**	**0**	**(34,949)**	**(121,874)**	**(1,288,741)**	**(1,410,615)**
Movement in Reserves during 2023/24										
Total Comprehensive Income and Expenditure	47,138		141,008					**188,146**	(84,315)	**103,831**
Adjustments between accounting basis and funding basis under regulations (note 10)	(36,874)		(141,598)		(14,533)		(782)	**(193,787)**	193,787	**0**
Transfers to / (from) earmarked reserves (note 9)	(10,264)	10,264						**0**		**0**
(Increase) / Decrease in Year	**0**	**10,264**	**(590)**	**0**	**(14,533)**	**0**	**(782)**	**(5,641)**	**109,472**	**103,831**
Balance at 31 March 2024	**(10,066)**	**(44,790)**	**(2,590)**	**0**	**(34,338)**	**0**	**(35,731)**	**(127,515)**	**(1,179,269)**	**(1,306,784)**

Revised

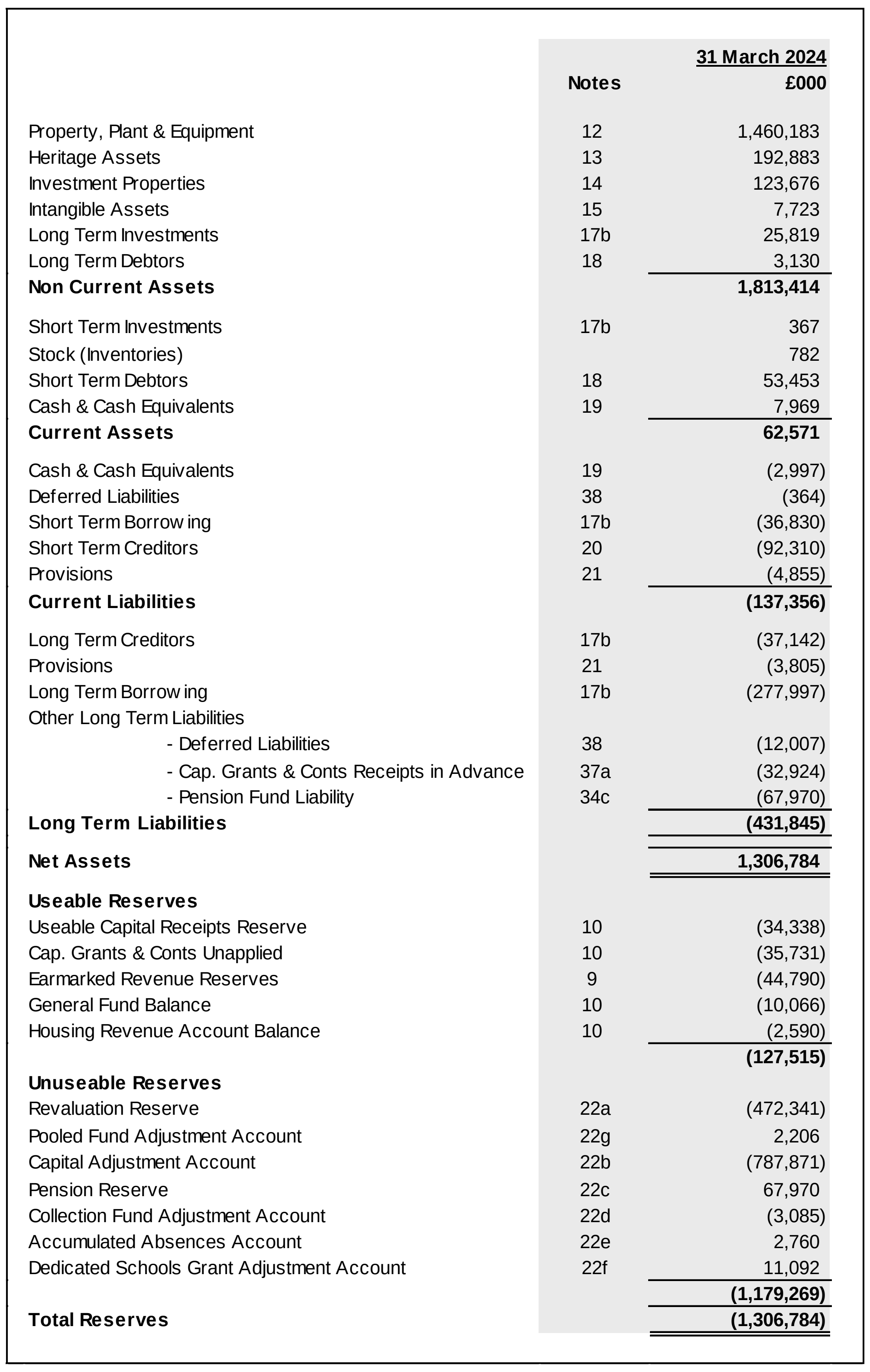


	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2023	**(10,066)**	**(55,054)**	**(2,000)**	**0**	**(19,805)**	**0**	**(34,949)**	**(121,874)**	**(1,288,741)**	**(1,410,615)**
Movement in Reserves during 2023/24										
Total Comprehensive Income and Expenditure	46,294		140,808					**187,102**	(117,586)	**69,516**
Adjustments between accounting basis and funding basis under regulations (note 10)	(36,030)		(141,398)		(14,533)		(782)	**(192,743)**	192,743	**0**
Transfers to / (from) earmarked reserves (note 9)	(10,264)	10,264						**0**		**0**
(Increase) / Decrease in Year	**0**	**10,264**	**(590)**	**0**	**(14,533)**	**0**	**(782)**	**(5,641)**	**75,157**	**69,516**
Balance at 31 March 2024	**(10,066)**	**(44,790)**	**(2,590)**	**0**	**(34,338)**	**0**	**(35,731)**	**(127,515)**	**(1,213,584)**	**(1,341,099)**

Revisions made to Statement of Accounts

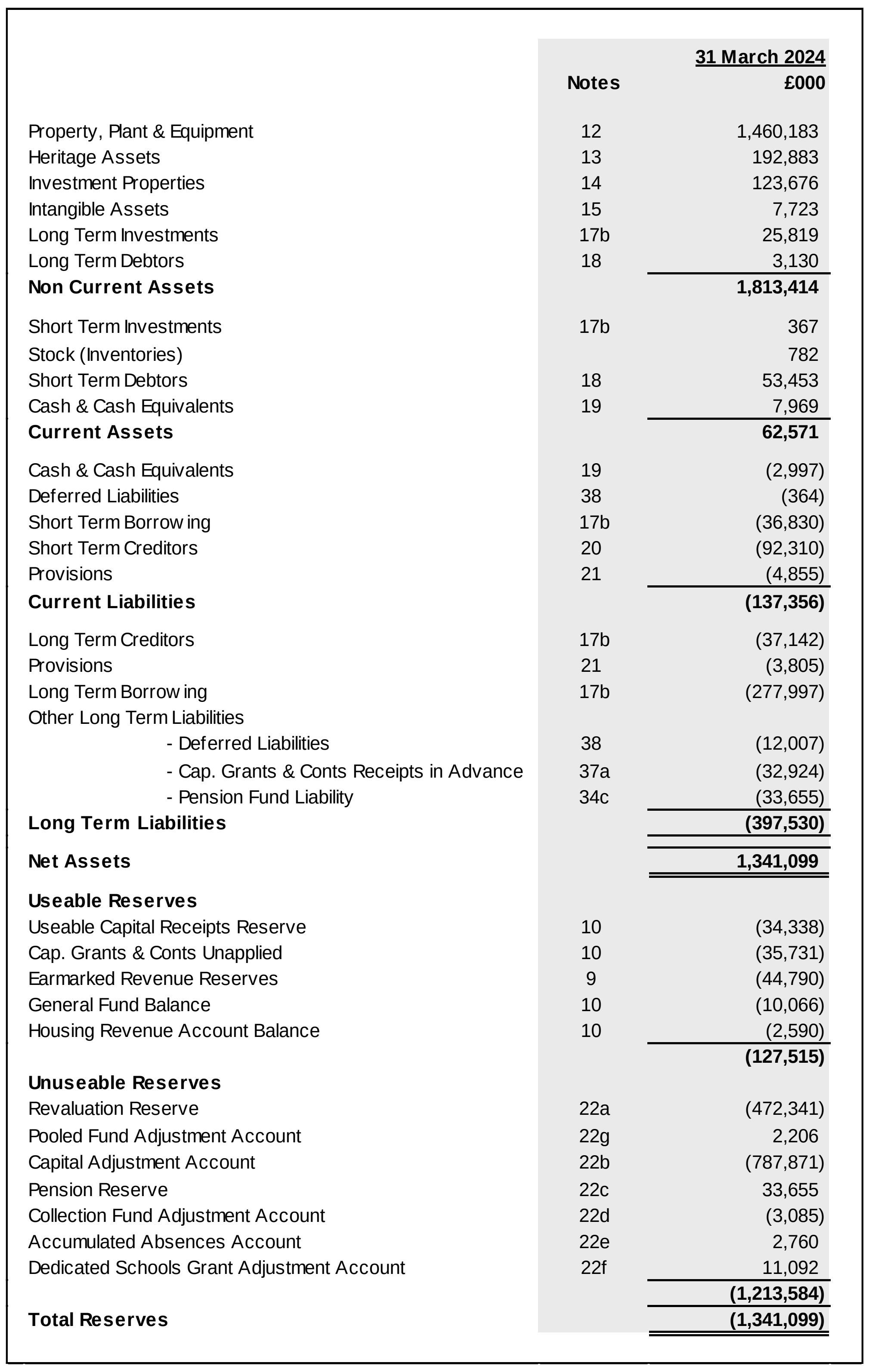
Ref No	Description	Page	Statement/ Note	Detail
			Balance Sheet	Original / Revised

Original



	Notes	31 March 2024 £000
Property, Plant & Equipment	12	1,460,183
Heritage Assets	13	192,883
Investment Properties	14	123,676
Intangible Assets	15	7,723
Long Term Investments	17b	25,819
Long Term Debtors	18	3,130
Non Current Assets		**1,813,414**
Short Term Investments	17b	367
Stock (Inventories)		782
Short Term Debtors	18	53,453
Cash & Cash Equivalents	19	7,969
Current Assets		**62,571**
Cash & Cash Equivalents	19	(2,997)
Deferred Liabilities	38	(364)
Short Term Borrowing	17b	(36,830)
Short Term Creditors	20	(92,310)
Provisions	21	(4,855)
Current Liabilities		**(137,356)**
Long Term Creditors	17b	(37,142)
Provisions	21	(3,805)
Long Term Borrowing	17b	(277,997)
Other Long Term Liabilities		
- Deferred Liabilities	38	(12,007)
- Cap. Grants & Conts Receipts in Advance	37a	(32,924)
- Pension Fund Liability	34c	(67,970)
Long Term Liabilities		**(431,845)**
Net Assets		**1,306,784**
Useable Reserves		
Useable Capital Receipts Reserve	10	(34,338)
Cap. Grants & Conts Unapplied	10	(35,731)
Earmarked Revenue Reserves	9	(44,790)
General Fund Balance	10	(10,066)
Housing Revenue Account Balance	10	(2,590)
		(127,515)
Unuseable Reserves		
Revaluation Reserve	22a	(472,341)
Pooled Fund Adjustment Account	22g	2,206
Capital Adjustment Account	22b	(787,871)
Pension Reserve	22c	67,970
Collection Fund Adjustment Account	22d	(3,085)
Accumulated Absences Account	22e	2,760
Dedicated Schools Grant Adjustment Account	22f	11,092
		(1,179,269)
Total Reserves		**(1,306,784)**

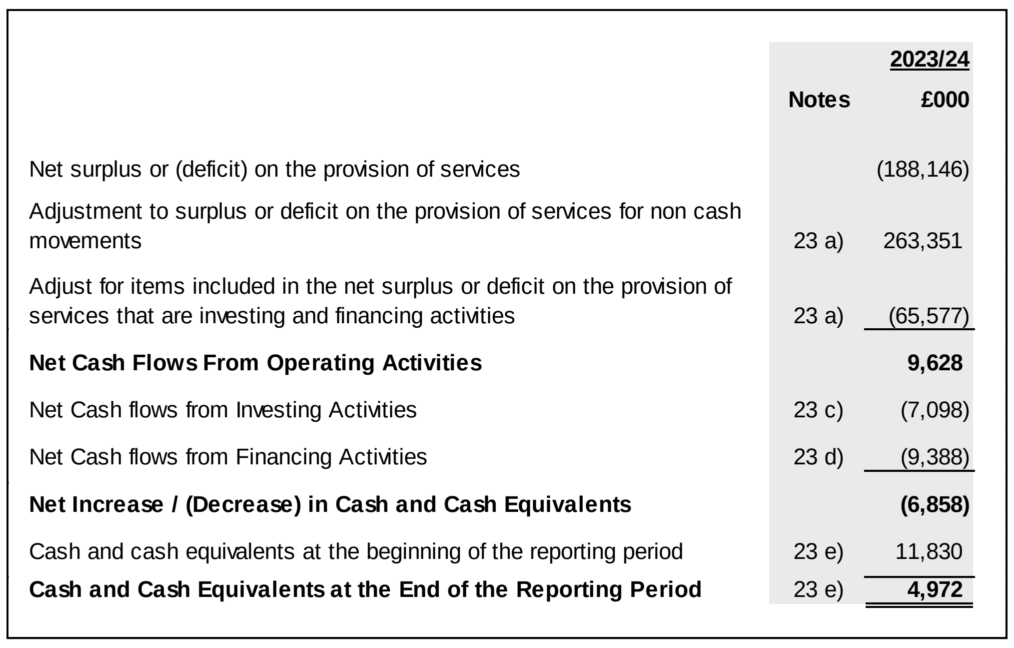
Revised



	Notes	31 March 2024 £000
Property, Plant & Equipment	12	1,460,183
Heritage Assets	13	192,883
Investment Properties	14	123,676
Intangible Assets	15	7,723
Long Term Investments	17b	25,819
Long Term Debtors	18	3,130
Non Current Assets		**1,813,414**
Short Term Investments	17b	367
Stock (Inventories)		782
Short Term Debtors	18	53,453
Cash & Cash Equivalents	19	7,969
Current Assets		**62,571**
Cash & Cash Equivalents	19	(2,997)
Deferred Liabilities	38	(364)
Short Term Borrowing	17b	(36,830)
Short Term Creditors	20	(92,310)
Provisions	21	(4,855)
Current Liabilities		**(137,356)**
Long Term Creditors	17b	(37,142)
Provisions	21	(3,805)
Long Term Borrowing	17b	(277,997)
Other Long Term Liabilities		
- Deferred Liabilities	38	(12,007)
- Cap. Grants & Conts Receipts in Advance	37a	(32,924)
- Pension Fund Liability	34c	(33,655)
Long Term Liabilities		**(397,530)**
Net Assets		**1,341,099**
Useable Reserves		
Useable Capital Receipts Reserve	10	(34,338)
Cap. Grants & Conts Unapplied	10	(35,731)
Earmarked Revenue Reserves	9	(44,790)
General Fund Balance	10	(10,066)
Housing Revenue Account Balance	10	(2,590)
		(127,515)
Unuseable Reserves		
Revaluation Reserve	22a	(472,341)
Pooled Fund Adjustment Account	22g	2,206
Capital Adjustment Account	22b	(787,871)
Pension Reserve	22c	33,655
Collection Fund Adjustment Account	22d	(3,085)
Accumulated Absences Account	22e	2,760
Dedicated Schools Grant Adjustment Account	22f	11,092
		(1,213,584)
Total Reserves		**(1,341,099)**

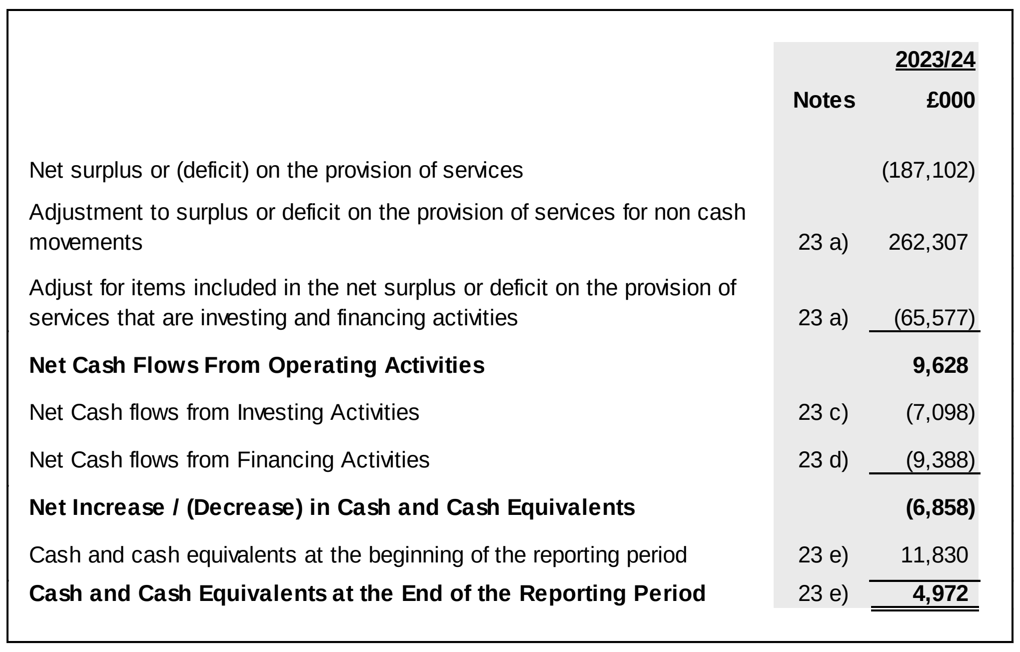
Ref No	Description	Page	Statement/ Note	Detail
			Cash Flow Statement	Original / Revised

Original



	Notes	2023/24 £000
Net surplus or (deficit) on the provision of services		(188,146)
Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	263,351
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	(65,577)
Net Cash Flows From Operating Activities		**9,628**
Net Cash flows from Investing Activities	23 c)	(7,098)
Net Cash flows from Financing Activities	23 d)	(9,388)
Net Increase / (Decrease) in Cash and Cash Equivalents		**(6,858)**
Cash and cash equivalents at the beginning of the reporting period	23 e)	11,830
Cash and Cash Equivalents at the End of the Reporting Period	23 e)	**4,972**

Revised



	Notes	2023/24 £000
Net surplus or (deficit) on the provision of services		(187,102)
Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	262,307
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	(65,577)
Net Cash Flows From Operating Activities		**9,628**
Net Cash flows from Investing Activities	23 c)	(7,098)
Net Cash flows from Financing Activities	23 d)	(9,388)
Net Increase / (Decrease) in Cash and Cash Equivalents		**(6,858)**
Cash and cash equivalents at the beginning of the reporting period	23 e)	11,830
Cash and Cash Equivalents at the End of the Reporting Period	23 e)	**4,972**

Ref No	Description	Page	Statement/ Note	Detail
3	**Minor changes made following EY review of the financial statements and notes**	46 91	4 31	**Major sources of estimation uncertainty** - correction to the value of a 1% change to PPE valuations from £0.96M to £9.66M. **Leases** - amendment to narrative to remove ‘such as adjustments following rent reviews’.

Southampton City Council
STATEMENT OF ACCOUNTS

2023/24

STATEMENT OF ACCOUNTS

CONTENTS

NARRATIVE STATEMENT

This document presents the statutory financial statements for Southampton City Council covering the period 1 April 2023 to 31 March 2024. The statements can be technical and complex, but we have sought to present them as clearly as we can. The narrative statement provides an overview of the authority's financial position for the year and prospects for the medium term.

The 2023/24 financial year has been financially challenging for the council. At the time the 2023/24 budget was agreed in February 2023 it was evident the Council faced serious budget issues. These included an over-reliance on the use of reserves, combined with financial pressures from high levels of inflation, high interest rates and increasing service demands.

In recognition of this financial situation, the Chartered Institute of Public Finance and Accountancy (CIPFA) were engaged in Spring 2023 to review the financial resilience of the organisation and its financial management arrangements. CIPFA found that the authority was displaying financial stress across five dimensions, including running down of reserves, failure to plan and deliver savings, short term financial planning, a tendency to overspend and a lack of detail in business decisions. CIPFA recommended that a plan to replenish reserves should be put in place, and that the Council needed to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these. At the same time work began on a revised Medium Term Financial Strategy and a new financial strategy and action plan aimed at reducing expenditure to within budget for 2023/24, achieving a sustainable budget over the medium term and improving financial resilience was agreed at full Council in July 2023.

Although some difficult decisions have had to be taken, the financial information below shows that the actions taken to reduce expenditure to within budget for 2023/24 were largely successful, with a deficit of around £1.1M being incurred for the year. This compares with a budget deficit reported the previous year (2022/23) of £11.4M.

Looking ahead into 2024/25 and beyond, the Council's financial position remains challenging. Despite considerable progress during 2023/24 in identifying measures to reduce expenditure and identify savings, a structural deficit of close to £40M remains and a balanced budget for 2024/25 was only achieved with the offer of Exceptional Financial Support (EFS) from the government. This support will be in the form of a capitalisation direction, which will allow the Council to use capital resources to meet revenue expenditure in 2024/25. The EFS is not additional funding, and it must be repaid either through capital receipts or borrowing. The Council will therefore seek to minimise the use of the EFS facility wherever possible.

Building on the progress made in 2023/24, the Council will require a stronger focus on financial management and accountability to ensure it improves its financial resilience and secures a sustainable financial position. This will require an improvement in financial management capabilities across the organisation and a strong emphasis on budget management and accountability. Accountability Statements have been introduced for all budget holders setting out their responsibilities for managing within cash limited budgets and a budget review panel established to ensure any overspends are quickly addressed through robust deficit recovery plans.

We know that the financial challenges cannot be addressed by short term and tactical measures alone. The Council is therefore investing in a comprehensive Transformation Programme as part of its plans to address the structural budget deficit. A transformation and improvement plan is also a condition of the EFS offer. A programme has been developed comprising 24 service focussed projects, complemented by five cross-organisational enabling programmes, and is expected to be approved by full Council in July 2024. This includes a Reshaping Financial Management programme which has been established to strengthen financial management in the organisation and to improve the effectiveness of the finance function.

The Council, like all other authorities, also has uncertainty of future levels of Government funding. The Government has not given any indication of funding beyond 2024/25 and any decisions around reforms to the local government finance system have been deferred until after the life of the current parliament. This uncertainty adds considerably to the challenge of planning the authority's finances over the medium term. We have been cautious with planning the finances of the Council and have assumed funding distributed via the local government finance settlement will remain flat over the medium term and that a business rates baseline reset will occur in 2026/27 and the Council's top-up grant will reduce as a result.

I would like to express my sincere and genuine thanks for all staff in my Finance team during 2023/24 who have played their part in producing the Statement of Accounts and for their wider efforts in supporting the Council.

I have structured this narrative statement to help enable readers to understand the Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts.

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 7 on page 118.

The Council reviews annually any interest in companies and other entities for any financial relationships which would require the Council to produce group accounts. In 2023/24 there were no material transactions that require this. Note 36 on page 100 provides further information.

The sections contained within the Narrative Statement are:

1. Key Facts about Southampton
2. Key Facts about Southampton City Council
3. A summary of the financial performance
4. An explanation of the statement of accounts
5. Issues & developments

1. KEY FACTS ABOUT SOUTHAMPTON

Southampton has a unique sea city location with exceptional transport links, a strong position nationally for economic growth, an excellent reputation for teaching and learning, a strong business community, good regional specialist hospital, varied retail offer, night-time economy, vibrant voluntary and student communities and a rich and diverse cultural mix.

There are several factors which affect the Council's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Council's financial position in both the short and medium term:

NARRATIVE STATEMENT

Key Statistics

Population 263,769
(HCC - SAPF-2022
based forecast)

Southampton covers
49.8km^2

Average house price
£231,528 February
2024

University of
Southampton ranked
17th in 2024 league
tables

Southampton ranked
in the top 10% for
Good Growth (2023)

Average gross weekly
(full time) earnings
£652 (£683 Eng.
average) 2023
(resident)

6,000 (4.3%)
unemployment rate
Oct 2022 to Sept 2023
(APS)

102,290 households
(2021 Census)
48.7% owned
21.9% social rented
29.2% private rented

75.0% 16-64 yrs olds in
employment (Eng.
average 75.9%)
Oct 2022 to Sept 2023

751 planning
applications 2023/24
730 Minor and other
development decisions
21 Major development
decisions

7,615 business
enterprises 2023

37,800 higher
education students in
the city 2021/22
(HESA)

Sources: Southampton City Council, Department for Work and Pensions (DWP), Office for National Statistics, Hampshire County Council, Annual Population Survey, Land Registry, PWC, BRES and HESA

Council related statistics

- Our green spaces are free and open to everyone, all year round. We maintain over 416 miles of highways verges and over 200 green spaces covering circa 950 hectares or around 20% of the land use in Southampton. The green spaces include parks, gardens, recreation grounds, natural habitats, ecology areas managed for wildlife (around 75 sites), woodlands and greenways.
- 8 x Green Flag awards for 5 Central Parks (as a collective award), St James' Park, Portswood Rec, Riverside Park, Freemantle Lake Park, Town Quay Park, Mayfield Park (new for 2023) and Peartree Green (new for 2023).
- We also maintain over 100 play areas, 24 multi use games areas, 7 Tennis courts, 6 Skateparks, the Southampton Municipal Golf Course and a mini-golf course.
- 92% of Southampton residents are within a mile of a local library.
- In 2023/24 libraries welcomed almost half a million visitors across six city council and five community partnership libraries. Those visitors borrowed over 750,000 books and e-books, and 34,000 of them attended some of the two and a half thousand activities we run each year to support reading, learning, wellbeing and fun.

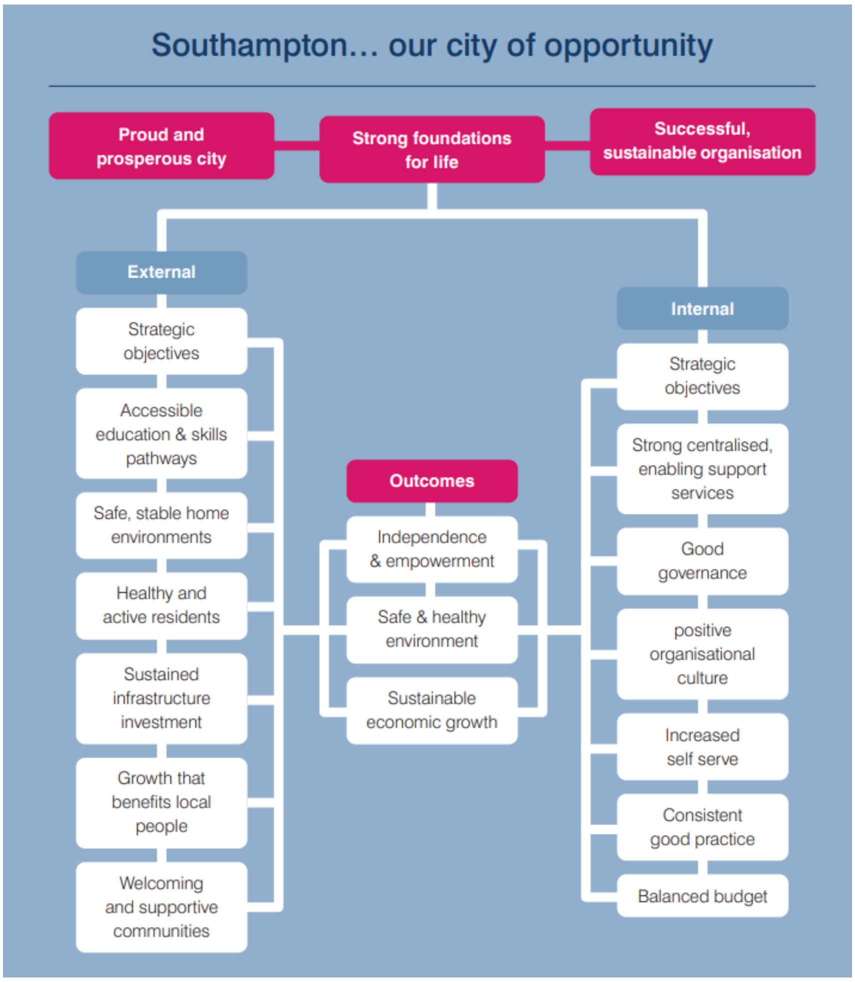
- Southampton libraries are also available at home 24-7 and last year residents used the digital library over 340,000 times to read newspapers and magazines, research family history, practice driving test theory questions or learn a language.
- Southampton Cultural Services Learning and Engagement Team provided activities at our three city venues, Southampton City Art Gallery, SeaCity Museum and Tudor House & Garden, as well as through a programme of outreach activity in the community and online. 44,500 school children, young people and adult learners took part in engagement visits, workshops, talks / tours and collection inspired projects throughout the year.
- Over 242,100 calls answered from residents.
- We provide 15,851 council houses, as of 31 March 2024.
- We support 2,605 people (provisional) in long term care as of 31 March 2024.
- We work with and support 76 schools in the city.
- 3,987 under 5 children used the children centres in 2023 and they made 17,943 visits (total number of different days each individual attended) and engaged in 20,353 activities.
- We look after 538 children looked after (108 per 10,000 people) (number of children looked after at 31 March (including adoption and care leavers).
- 1,671 Commercial Waste Customers and 14,852 Garden Waste Customers.
- Empty around 128,000 bins from households every week.
- We recycled, composted and reused 23,756 tonnes of waste in 2022/23 full year.
- Service and maintain about 470 vehicles.
- City Telecare Services offers 24 hour help to more than 6,200 city residents and over 1,600 Portsmouth residents.
- We have about 3,245 supported housing properties which have the Community Alarm Monitoring property element.
- 2,074 supported properties for people aged over 60.
- We have 218 Extra Care properties in the city.
- 4,045 support plans delivered by Housing Support Workers supporting older vulnerable residents.

Southampton City Council: Corporate Plan (Update 2024)

The Council's Corporate Plan was updated in March 2024 to reflect our changing circumstances as a council and a city, acknowledging the challenging financial position being faced while still maintaining a vision of a city of opportunity.

The plan commits to creating a place where people want to live, work, study, visit and enjoy. We will continue to work with community leaders, partners, and businesses across the city to deliver the plan for and with the people of Southampton to achieve the city’s ambitions.

The core goals within the Corporate Plan have been reviewed and refined, with outcomes that focus on improving the lives of residents and growing the economic and health prosperity of our city. Strategic objectives have been developed that provide more specifics around areas of focus to make that step-change, and the business planning framework will ensure the work of all areas of the council are aligned to the achievement of these objectives, outcomes, and goals.



2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

All of the factors in Section 1 help to shape the Council's priorities and provide a challenging environment for the Council to operate in. Charged with directing the outcomes, priorities and policies of the Council are the 51 elected Councillors. The next section describes the political and management structure of the Council.

Political Structure

Southampton City Council is a unitary authority split into 17 wards each represented by 3 councillors. The political structure as at 31 March 2024 was as follows, with the position following the local election held on 2 May 2024 in parentheses:

- Labour 37 (36)
- Conservative 9 (10)
- Liberal Democrats 3 (4)
- Green 1 (1)
- Independent 1 (0)

Council Management Board

Supporting the work of the elected members is the Council's Management Board (MB). The makeup of the board corresponding to the directorate structure in 2023/24 is detailed below. Note 26 shows the further detail of people that were in a strategic post during 2023/24, together with some changes to executive director posts in March 2024.

Chief Executive – ***Andrew Travers (interim)***

Executive Director – Wellbeing (Children & Learning) – ***Robert Henderson***

Executive Director – Place – ***Adam Wilkinson (interim – to 28 March 2024)***

Executive Director – Wellbeing & Housing – ***Claire Edgar***

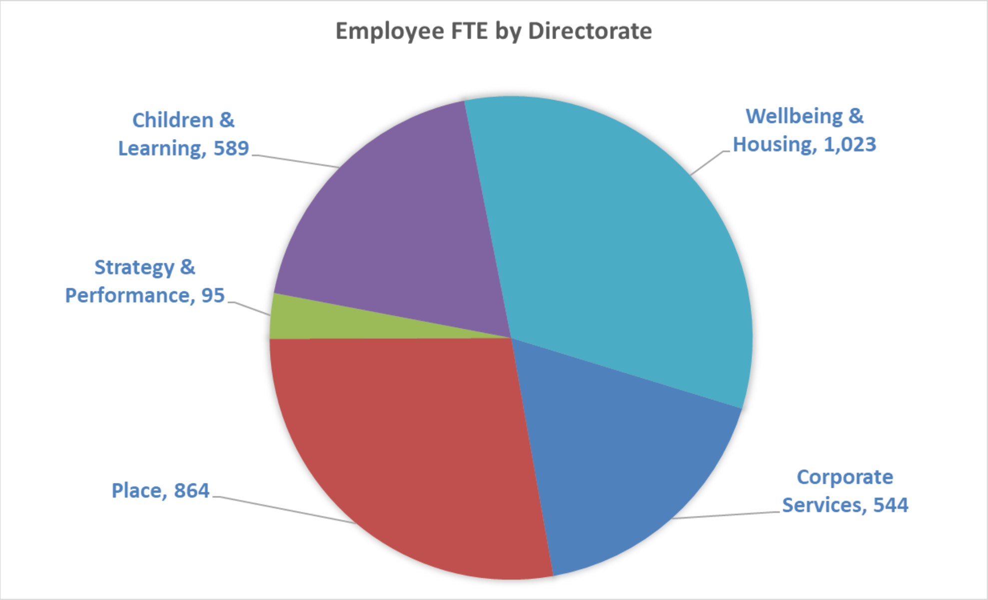
Executive Director – Corporate Services & S151 Officer – ***Mel Creighton***

Director – Strategy & Performance – ***Munira Holloway***

The board works together to set out the priorities and themes contained within the Southampton City Council Corporate Plan.

Staffing

The Council employs circa 3,114 Full Time Equivalents to deliver these priorities (excluding school employees). The following chart shows how these support the different Council services:

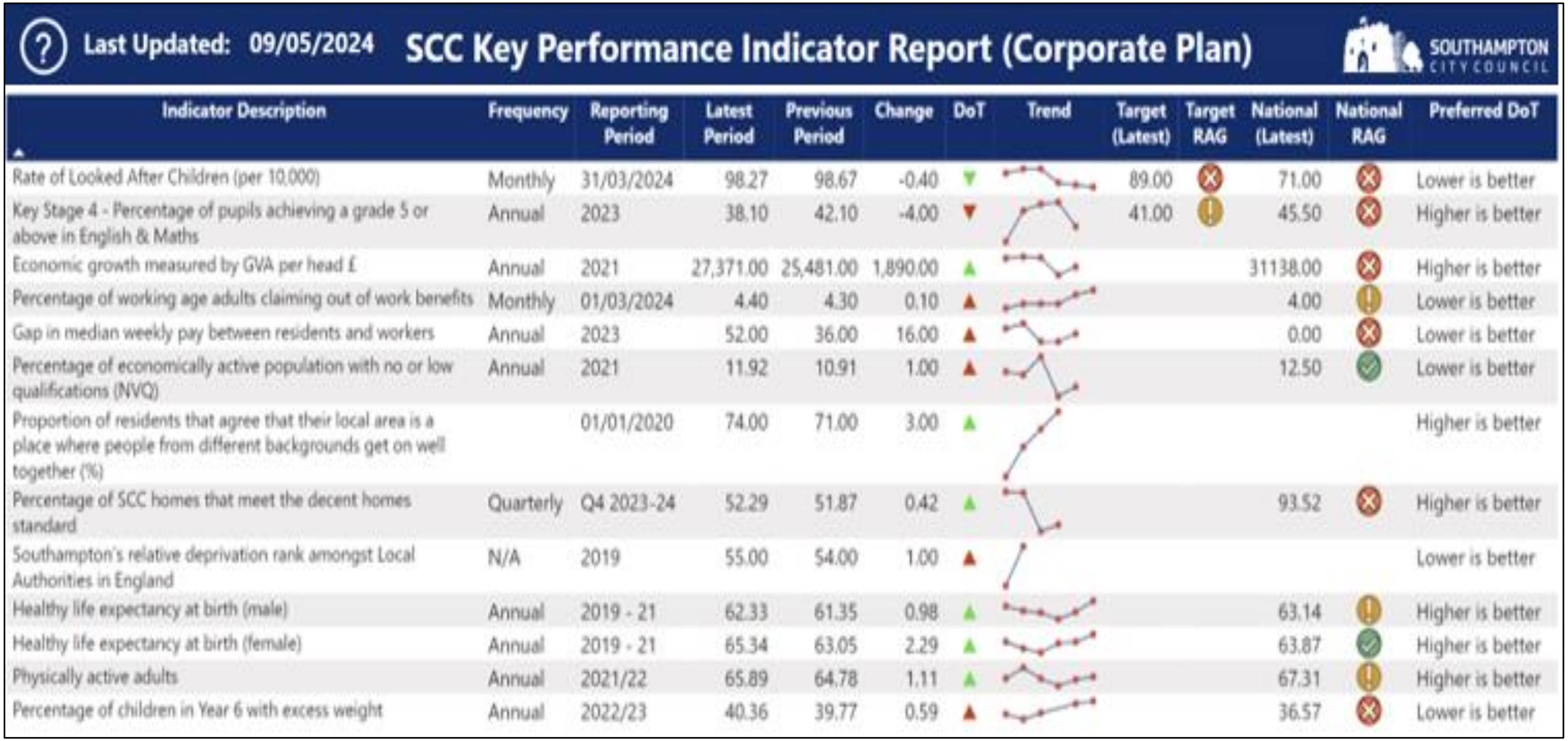


The Council has adopted a hybrid working approach with staff mixing working in council offices and other locations and working from home. The mix varies and is based on the needs of individual services. Hybrid working helps with the efficient and effective use of council accommodation.

The Council's Performance

The measures used to monitor and report on the Corporate Plan are shown below. This indicates performance levels, time periods to which the data relates, and the direction of travel (d.o.t) and trend.

NARRATIVE STATEMENT



Last Updated: 09/05/2024 **SCC Key Performance Indicator Report (Corporate Plan)**

Indicator Description	Frequency	Reporting Period	Latest Period	Previous Period	Change	DoT	Trend	Target (Latest)	Target RAG	National (Latest)	National RAG	Preferred DoT
Rate of Looked After Children (per 10,000)	Monthly	31/03/2024	98.27	98.67	-0.40	▼		89.00	⊗	71.00	⊗	Lower is better
Key Stage 4 - Percentage of pupils achieving a grade 5 or above in English & Maths	Annual	2023	38.10	42.10	-4.00	▼		41.00	!	45.50	⊗	Higher is better
Economic growth measured by GVA per head £	Annual	2021	27,371.00	25,481.00	1,890.00	▲				31138.00	⊗	Higher is better
Percentage of working age adults claiming out of work benefits	Monthly	01/03/2024	4.40	4.30	0.10	▲				4.00	!	Lower is better
Gap in median weekly pay between residents and workers	Annual	2023	52.00	36.00	16.00	▲				0.00	⊗	Lower is better
Percentage of economically active population with no or low qualifications (NVQ)	Annual	2021	11.92	10.91	1.00	▲				12.50	✓	Lower is better
Proportion of residents that agree that their local area is a place where people from different backgrounds get on well together (%)		01/01/2020	74.00	71.00	3.00	▲						Higher is better
Percentage of SCC homes that meet the decent homes standard	Quarterly	Q4 2023-24	52.29	51.87	0.42	▲				93.52	⊗	Higher is better
Southampton's relative deprivation rank amongst Local Authorities in England	N/A	2019	55.00	54.00	1.00	▲						Lower is better
Healthy life expectancy at birth (male)	Annual	2019 - 21	62.33	61.35	0.98	▲				63.14	!	Higher is better
Healthy life expectancy at birth (female)	Annual	2019 - 21	65.34	63.05	2.29	▲				63.87	✓	Higher is better
Physically active adults	Annual	2021/22	65.89	64.78	1.11	▲				67.31	!	Higher is better
Percentage of children in Year 6 with excess weight	Annual	2022/23	40.36	39.77	0.59	▲				36.57	⊗	Lower is better

3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The budget for the financial year 2023/24 was agreed at full council on 22 February 2023. A balanced budget was set based on a council tax increase of 4.99%, £22.0M of new planned savings for the year and £20.6M use of reserves. The following sections describe the actual performance for the year and financial strategies adopted to contain expenditure within budget.

The Council incurs both revenue and capital expenditure. The revenue account (known as the General Fund or GF) bears the net cost of providing day to day services. The capital account shows the net cost of transactions made to buy or sell land, property, or other assets, build new property, make asset improvements, and provide grants or loans to other bodies to undertake this type of activity.

The table below shows the Council's outturn position and variances from the budget.

General Fund Revenue Account: Outturn Position 2023/24	**Budget 2023/24 £M**	**Outturn 2023/24 £M**	**Outturn Variance 2023/24 £M**
Directorate			
Children & Learning	51.43	52.84	1.41 A
Corporate Services	30.85	31.12	0.26 A
Place	42.87	45.30	2.43 A
Strategy & Performance	3.76	3.67	(0.09) F
Wellbeing & Housing	86.93	84.97	(1.96) F
Sub total for Directorates	**215.85**	**217.90**	**2.05 A**
Levies & Contributions	0.09	0.09	0.00 A
Capital Asset Management	9.40	8.48	(0.92) F
Other Expenditure & Income	(22.64)	(21.64)	1.00 A
Net Council Expenditure	**202.69**	**204.83**	**2.14 A**
Financed By:			
Council Tax	(115.51)	(115.51)	0.00 A
Business Rates	(49.14)	(49.15)	(0.01) F
Non-Specific Government Grants & Other Funding	(38.04)	(39.08)	(1.04) F
Total Financing	**(202.69)**	**(203.73)**	**(1.04) F**
Transfer from Reserves - Year End Deficit		**(1.10)**	**(1.10)**
(Surplus)/Deficit	**0.00**	**0.00**	**(0.00)**

Numbers are rounded. An adverse variance is indicated by 'A' and a favourable variance by 'F'

When the 2023/24 budget was set it was evident that there was a structural budget deficit, reflected in the reliance on reserves to balance the budget. In addition, sizable new budget pressures and increases to existing pressures emerged early in the financial year. In the updated MTFS reported to full Council in July 2023 £30.0M of new budget pressures over and above those allowed for in the 2023/24 budget were identified, mitigated by £9.1M of a first tranche of new cost control measures, to give a forecast overspend of £20.9M.

Work continued throughout the year to bring forward further cost control measures and in-year savings, together with tight controls over spending through the operation of a cost control panel regime. After taking these measures, together with some pressures forecast earlier in the year not materialising to the same extent and the receipt of additional government grant, the final outturn position was a £1.1M overspend as per the table above. The overspend was met by a drawdown from the Medium Term Financial Risk Reserve.

The most significant overspend related to the Place directorate (£2.4M adverse), which includes a £3.4M overspend on Home to School Transport driven by the increased numbers of pupils with an Education, Health and Care Plan (EHCP) who are eligible for home to school transport and by the unit costs for transport being higher than budgeted. Favourable variances elsewhere within the directorate have reduced the net deficit, including a £1.7M underspend on Property Services, mostly relating to staffing vacancies.

The Children & Learning directorate overspend (£1.4M adverse) includes a £3.2M overspend on Children Looked After relating to demand pressures on placement spend. Reductions in the level of agency staffing and additional grant funding have helped reduce the net deficit within the directorate.

The Wellbeing & Housing underspend (£2.0M favourable) includes £0.7M for contract review and staff savings within the Integrated Commissioning Unit, £0.5M favourable backdated leisure contract adjustments, and £1.1M of staffing and other underspends across other services, offset by £0.4M increased net costs of temporary accommodation. This is after the transfer of £2.0M of unused winter pressures budget to the Social Care Demand Risk Reserve for use in future years.

The favourable variances for centrally held budgets are:

- Capital Asset Management (£0.9M favourable): reduced capital financing costs following a review of the capital programme and scheme slippage, and better than expected treasury management investment performance.
- Other Expenditure & Income (£1.0M adverse): this reflects additional contributions to reserves to provide cover for risks and future costs, in line with the CIPFA recommendation to replenish reserves.
- Non-Specific Government Grants & Other Funding (£1.0M favourable): additional government grants were notified during the year including £0.5M Business Rates Levy Surplus and £0.4M Top-Up Grant adjustment.

Expenditure and Funding Analysis

It should be noted that an expenditure and funding analysis is included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 23 and further in Note 8.

Expenditure is analysed below by category to explain further how the Council spends its resources.

Directorate Outturn Position 2023/24	**Budget 2023/24 £M**	**Outturn 2023/24 £M**	**Outturn Variance 2023/24 £M**
Salaries & Wages	148.95	146.84	(2.10) F
Premises Costs	14.28	12.64	(1.63) F
Transportation Costs	8.24	11.39	3.15 A
Supplies & Services	108.36	111.97	3.60 A
Internal Charges	16.79	23.31	6.52 A
Other Direct Costs	339.40	378.65	39.25 A
Total Expenditure	**636.01**	**684.81**	**48.79 A**
Internal Income	(45.64)	(47.66)	(2.02) F
Fees, Charges & Rents	(54.11)	(63.39)	(9.28) F
Grants / Contributions	(320.41)	(355.86)	(35.45) F
Total Net Expenditure	**215.85**	**217.90**	**2.05 A**

Numbers are rounded

This analysis excludes the HRA when compared to the EFA.

COLLECTION FUND

As the billing authority for Southampton, the City Council maintains a Collection Fund for the receipt and distribution of local taxes. The Council Tax element of the Collection Fund is credited with income from Council Tax payers and debited with the Council's call on the Fund plus the precepts of the Hampshire and Isle of Wight Police & Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority. The Fund is used to smooth the difference between the actual and budgeted amount of Council Tax collected each year. Any surplus or deficit on the Fund is normally reflected in the following year's Council Tax calculations, although by exception the 2020/21 in-year deficit was spread over 3 years, with 2023/24 being the final year. The Business Rates element of the Collection Fund operates in a broadly similar way.

The Collection Fund has a surplus of £7.2M at 31 March 2024, being a surplus of £8.4M for Business Rates and a deficit of £1.2M for Council Tax. The surplus for Business Rates is primarily that carried forward from 2022/23 but not used during the year. The Collection Fund statement is included on page 110.

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sale of Council houses and flats. Although this account is also included within the Core Financial Statements 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 must be self-financing and there is a legal prohibition on cross subsidising to or from the council tax payer. The HRA statements are included on pages 106 to 109.

HRA Outturn Position 2023/24

The table below shows the HRA outturn position. A favourable outturn position allowed for the HRA working balance to be increased from £2.00M to £2.59M.

Housing Revenue Account: Outturn Position 2023/24	**Budget 2023/24 £M**	**Outturn 2023/24 £M**	**Outturn Variance 2023/24 £M**
EXPENDITURE			
Responsive Repairs	15.10	15.36	0.26 A
Housing Investment	6.44	6.95	0.51 A
Total Repairs	21.54	22.31	0.77 A
Rents Payable	0.20	0.66	0.46 A
Debt Management	0.09	0.08	(0.01) F
Supervision & Management	26.16	26.48	0.32 A
Interest and Principal Repayments	5.71	5.77	0.06 A
Depreciation	22.07	17.97	(4.10) F
Capital Financing	4.00	6.00	2.00 A
TOTAL EXPENDITURE	**79.77**	**79.26**	**(0.51) F**
INCOME			
Dwelling Rents	(75.14)	(74.82)	0.32 A
Other Rents	(1.24)	(1.10)	0.14 A
Total Rental Income	(76.38)	(75.92)	0.46 A
Service Charge Income	(2.34)	(2.51)	(0.17) F
Leaseholder Service Charges	(1.05)	(1.31)	(0.26) F
Interest Received	0.00	(0.10)	(0.10) F
TOTAL INCOME	**(79.77)**	**(79.85)**	**(0.08) F**
(SURPLUS)/DEFICIT FOR YEAR	**0.00**	**(0.59)**	**(0.59) F**
BALANCES			
Working Balance B/Fwd	2.00	2.00	0.00
Surplus/(deficit) for year	0.00	0.59	0.59
WORKING BALANCE C/FWD	**2.00**	**2.59**	**0.59**

Numbers are rounded

DEDICATED SCHOOLS GRANT (DSG)

The Dedicated Schools Grant (DSG) is a ring-fenced grant received from Government that must be used to fund schools expenditure. Primarily arising from demand pressures within services covered by the High Needs Block (HNB), the DSG has run into deficit in recent years. There was a £3.0M surplus in 2023/24 and the Council's net deficit at 31 March 2024 was £7.1M, compared with £10.1M at the previous year-end. Normally, this deficit would need to be covered by the Council's General Fund reserves, but Government has put in place a statutory override of this requirement until the end of 2025/26, effectively meaning the DSG deficit is not required to be covered by the Council's General Fund reserves until after 1 April 2026.

An increase in High Needs funding in 2023/24 helped mitigate some of the pressure being experienced on the HNB and further work is being undertaken as part of the Department for Education's programme Delivering Better Value in Special Educational Needs & Disabilities (SEND) to address the deficit to reduce the need for higher levels of intervention. The Council has put in place a strategy to manage the increase in High Needs which includes developing SEND units and resource provisions within mainstream schools reducing the need for more expensive independent placements. The Capital Programme contains a SEND expansion programme totalling £41.8M, for investment to create extra SEND school spaces within the city.

CAPITAL

The capital programme budget for the year, including changes approved during the year, was £122.7M in total. This covers both General Fund and HRA capital expenditure. Final capital spend for the year was £98.5M. This was £24.2M less than budgeted, and includes slippage and re-phasing of £3.9M. This will be reflected in the post outturn update of the overall programme.

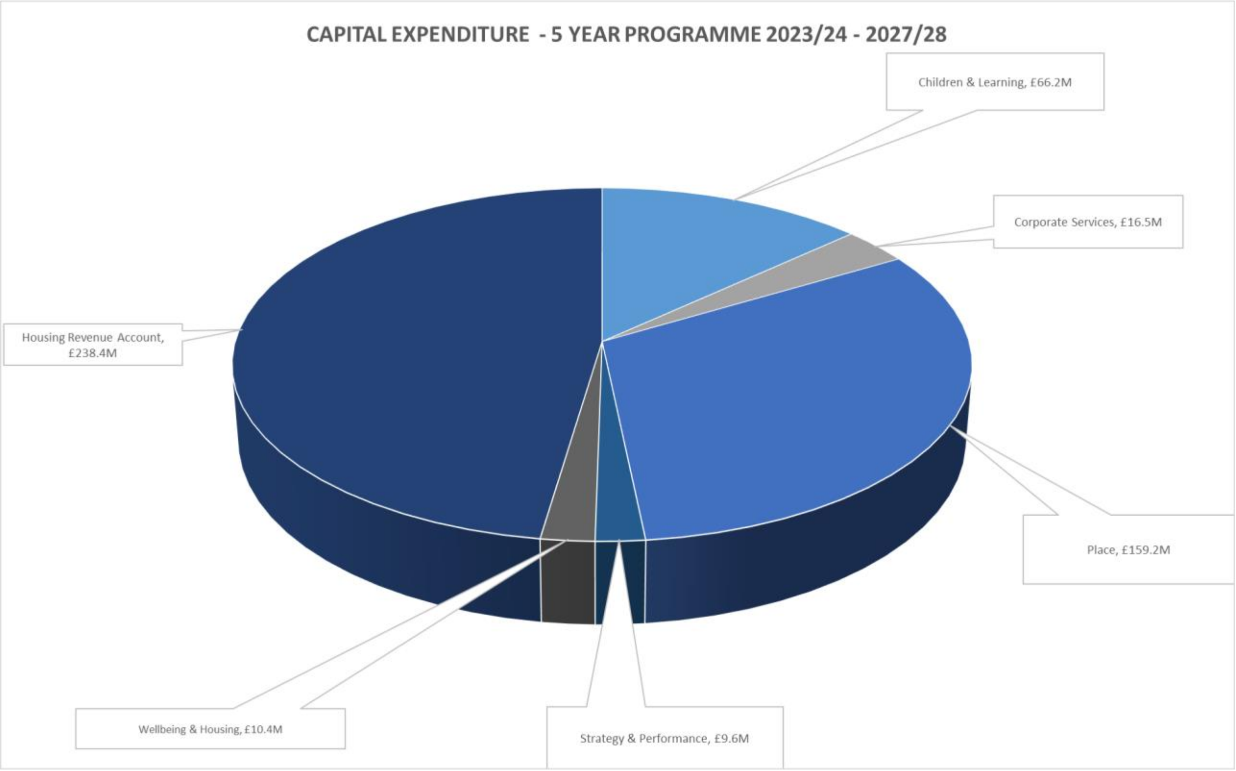
The table below shows the capital expenditure for the year against budget for each directorate:

Service	2023/24 Budget £M	2023/24 Expenditure £M	Variance £M
Children & Learning	11.68	9.02	2.66 F
Corporate Services	2.89	1.88	1.01 F
Place	60.26	46.92	13.34 F
Strategy & Performance	2.68	1.46	1.22 F
Wellbeing & Housing	3.21	2.44	0.77 F
Total General Fund Programme	**80.73**	**61.73**	**19.00 F**
Housing Revenue Account	41.98	36.77	5.21 F
Total Capital Programme	**122.71**	**98.50**	**24.21 F**

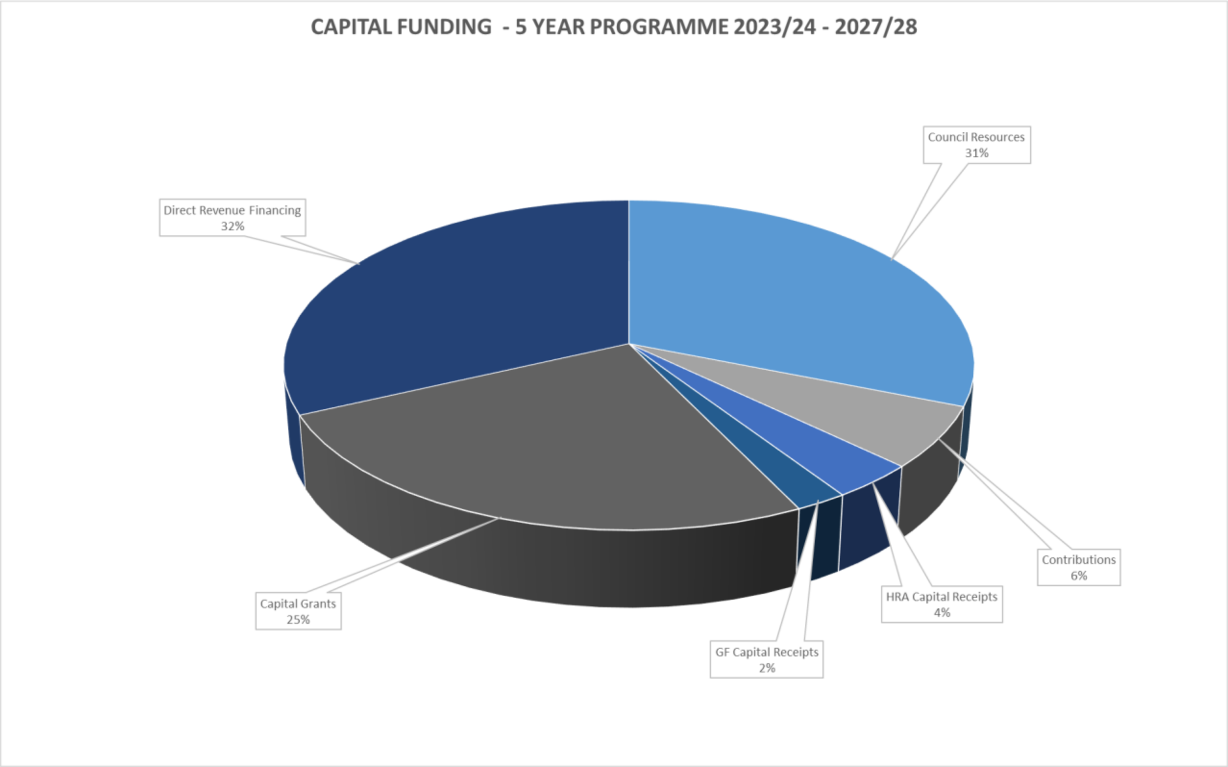
Numbers are rounded

Five Year Capital Programme

The current approved five-year capital programme is £500.3M. The funding of the programmes is shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends.


CAPITAL EXPENDITURE - 5 YEAR PROGRAMME 2023/24 - 2027/28
Children & Learning, £66.2M
Corporate Services, £16.5M
Housing Revenue Account, £238.4M
Place, £159.2M
Wellbeing & Housing, £10.4M
Strategy & Performance, £9.6M

Funded by:


CAPITAL FUNDING - 5 YEAR PROGRAMME 2023/24 - 2027/28
Council Resources 31%
Direct Revenue Financing 32%
Contributions 6%
HRA Capital Receipts 4%
GF Capital Receipts 2%
Capital Grants 25%

TREASURY MANAGEMENT

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director Corporate Services & S151 Officer to make decisions on the management of the Council's debt and the investment of surplus funds.

The Council's current strategy is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. This is because the council has an increasing projected borrowing requirement. The strategy enables a reduction in credit risk, takes pressure off the Council's lending list, and avoids the cost of carrying debt existing in the current interest rate environment.

The Churches, Charities and Local Authorities (CCLA) property investment fund generated returns of 4.76% in 2023/24 against an original investment of £27M. The value of the fund has continued to fall in 2023/24, with the capital value reducing by £1.0M (3.9%) from £25.8M at 31 March 2023 to £24.8M at 31 March 2024, a loss of £2.2M on the original investment. IFRS9 requires gains and losses from unrealised fair value movements for treasury pooled investments to be recognised in the surplus or deficit on the provision of services. However, a statutory override to IFRS9 for English authorities is in place until the end of 2024/25, requiring such movements to be taken to an unusable reserve and not to be a charge to the General Fund revenue account. The Council has set aside £0.8M in the Investment Risk Reserve to provide cover for a potential loss on the value of the CCLA property investment fund when the statutory override ends, with further budgeted contributions to the reserve over the next two years.

RESERVES AND BALANCES

The Council maintains several useable revenue and capital reserves, as set out in the Balance Sheet.

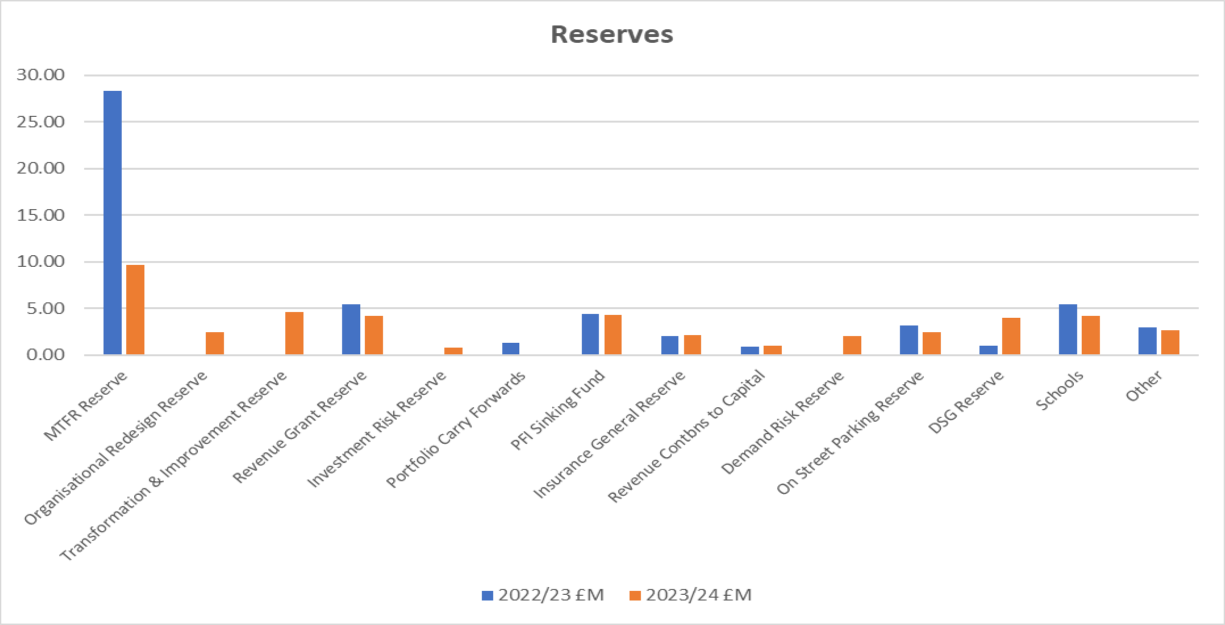
The Council holds revenue reserves to provide cover for risks and unforeseen events, to meet known or predicted requirements and to manage timing differences in funding. Reserves form a key part of the Council's financial resilience strategy and maintaining its financial sustainability. A new policy on reserves was adopted in July 2023 as part of the wider new financial strategy.

The General Fund Balance operates as a working balance and to provide a contingency against emerging events or emergencies. The level of the General Fund Balance at 31 March 2024 was £10.1M. The level was reconsidered as a part of the budget setting process for 2024/25 and is planned to increase to £12.0M in that year.

The Council's General Fund earmarked revenue reserves reduced by £10.3M from £55.1M at 31 March 2023 to £44.8M at 31 March 2024. The graph below highlights the changes in the value of reserves over that period.

The Council's primary reserve for addressing budget management risks is the Medium Term Financial Risk (MTFR) reserve. Most of the planned use of reserves to balance the 2023/24 budget came from this reserve, together with the £1.1M drawdown to meet the outturn deficit, reducing the balance on the reserve from £28.4M as at 31 March 2023 to £9.7M as at 31 March 2024.

The new policy on reserves includes the approach of using one-off gains to start to build reserves to be used for non-recurrent purposeful investment or spend. One-off gains obtained during the year from a Leisure Services VAT reclaim and business rates refunds have been used to establish a Transformation & Improvement Reserve and Organisational Redesign Reserve, which had balances as at 31 March 2024 of £4.7M and £2.5M respectively. In addition, cover for risks has been strengthened by the creation of the Investment Risk Reserve (£0.8M balance) and re-instatement of the Social Care Demand Risk Reserve (£2.0M balance).



PRINCIPAL RISKS AND UNCERTAINTY

Risk management is an essential part of the Council's overall governance arrangements. It provides the framework for managing risk in a systematic, consistent, and efficient way. The risk management framework comprises the overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk. The key components of this framework are:

Risk Management Policy - This provides an overview of the framework, arrangements and responsibilities for managing risk within and across the Council and is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. This policy, which is published on the council intranet, is subject to annual review and update as necessary.

Strategic Risk Register - The Strategic Risk Register is a key document in terms of identifying, assessing, and managing the council's key strategic risks. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. They reflect a combination of organisational 'resilience' and 'governance' type risks together with risks that are more transient in nature. The Strategic Risk Register is updated and reviewed on a quarterly basis by the council's 'Management Board' (the Chief Executive and Executive Directors) who also consider any new or emerging risks.

Directorate Risk Registers – Directorate Risk Registers recognise that, in addition to the council's Strategic Risks, there will be other significant risks within individual directorates relating to the services, actions or activities being delivered or undertaken. Such risks, although significant in themselves, may not however be considered as cross-cutting or be of such significance that they are considered a 'strategic risk' that requires Management Board oversight. The risks that appear in a Directorate Risk Register will typically be aligned with the Service Business Plan in terms of the potential impact on the delivery of the key service priorities and objectives.

Project and Programme Risk Management - The need to identify and manage risk runs throughout the project and programme management process with 'Risks, Assumptions, Issues, Dependencies ('RAID') Logs' embedded as part of project management governance. Template documents and associated guidance is available to assist both project managers and project sponsors/boards in understanding the importance of understanding and managing risk.

Decision Taking: Corporate Report Template - The council's standard corporate report template includes a 'Risk Management Implications' section. This section requires a report author to highlight any significant risks associated with the decision and provide the decision maker with assurance the appropriate actions/controls are in place to mitigate the risk. It should also mention what consultation has been carried out in preparation (both internal and external) and report on any responses received and an analysis (both positive and negative) of those reports.

Business Planning - The council undertakes an annual business planning and budgeting process with all Service Business Plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. Significant risks that may threaten or adversely impact delivery of their key priorities and outcomes would be expected to be considered for inclusion in the Directorate Risk Register.

Partnerships - All key service delivery partnerships (such as the Highways Service Partnership with Balfour Beatty Living Places) and other major contracts have risk registers in place which are jointly reviewed with the supplier and include any 'shared risks'. There is also guidance published internally on the council's intranet site in respect of managing risk in respect of non-commercial partnership working.

4. AN EXPLANATION OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts brings together all the financial activities of the Council for the year and its financial position as at the 31 March 2024. It details both revenue and capital elements for both the General Fund and the HRA.

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 stakeholders 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.

A glossary of key terms can be found at the end of this document.

Core Financial Statements:	Page
Responsibilities for the Statement of Accounts	22
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
Expenditure and Funding Analysis (Not a Core Financial Statement)	
The purpose of this note is to report performance in a similar format used for reporting to management throughout the year.	23
The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.	
The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.	
Comprehensive Income and Expenditure Statement (CIES)	
This records all the Council's income and expenditure for the year. The statement analyses income and expenditure by service area as well as non-service specific or corporate transactions and funding. The format followed is	24

provided by The Chartered Institute of Public Finance and Accountancy (CIPFA) so that comparisons of local authority accounts can be undertaken.

Movement in Reserves Statement (MiRS) 25

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves', (i.e. those that can be applied to fund expenditure or reduce local taxation), and other 'unusable' reserves which are set aside for specific purposes. As a local authority, special dispensation is given to ensure some standard accounting entries such as depreciation do not affect the council tax payer. These amendments are shown as part of the MiRS.

Balance Sheet

The Balance Sheet shows the value as at the 31 March 2024 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. 26

Cash Flow Statement

This statement shows the reasons for changes in the Council's cash balances in year. Cash flows are classified as: 27

- Operating – this gives an indication of the extent to which services provided by the council are funded by way of taxation, grant income or payments from recipients of services
- Investing – how much income has been generated from resources held to contribute to future service delivery
- Financing activities - cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Core Financial Statements (including Accounting Policies) 28 – 104

Housing Revenue Account (HRA) 105 - 108

This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.

Collection Fund 109 - 111

This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.

Glossary 112 - 116

Annual Governance Statement 117 - 132

Auditor's Report and Certificate 133

5. ISSUES AND DEVELOPMENTS

Reshaping Financial Management

CIPFA made recommendations to strengthen the Council's financial management arrangements following its review. A financial management improvement plan was developed to address those recommendations and work got underway in 2023/24 through the establishment of a Reshaping Financial Management programme. The key objectives of the programme are to develop, deliver and embed robust financial management and practice across the organisation and to deliver an effective finance function. The programme has been designed to implement the CIPFA recommendations via five workstreams: People & Leadership, Process, Data & Reporting, Technology and Debt.

Starboard Way

The final phase of the development of the Former Oakland's Community School Site was completed in 2023/24, delivering 103 new affordable homes, at a cost of £19.8M. The scheme comprised of two, three and four-bedroom houses and one and two-bedroom apartments and benefits from a range of energy-efficient features. The homes at Starboard Way are a mixture of 66 council-rented and 37 share-ownership homes.

The new scheme at Starboard Way provides:

- A varied layout of semi-detached houses in pairs, short terraces of houses, and small blocks of two and three-storey flats
- Attractive brickwork elevations with feature detailing
- Energy-efficient measures which include photovoltaic solar panels
- A cycle path which has been rerouted through the new development to improve safety and surveillance
- Electric Vehicle charging points in parking areas for the apartments, plus improved electrical infrastructure (including electrical substation upgrade) to enable houses to have the option for EV charging at a later date

There are also areas of open space across the development which will include formal and informal play once completed.

Townhill Park Estate Regeneration

The regeneration of Townhill Park will replace old council housing stock with around six-hundred brand new energy efficient council homes. During the year work stopped on 3 plots (Plots 2, 9 & 10) which were being developed through a Council design and build tender as the contractor no longer wished to deliver the project. The Council has been developing an alternative model for increasing the affordable homes provision in the city. Through the Affordable Homes Framework (AHF) the Council will make land available to our framework Registered Providers who will then provide the affordable homes to which the Council will have nomination rights for those on the housing waiting list. Plots 5 (Benhams, Meggeson and Hallet blocks) & 6 (shops with residential above and former vacant pub) were already approved to go into the AHF and are currently out to mini tender under the AHF. In February 2024 Cabinet agreed the transfer of Plots 2 and 9 to the AHF and these sites will be going out to AHF tender in the summer 2024. Due diligence work is proceeding on Plot 10 to decide on the best delivery model and a decision is due in the summer. Decommissioning of Plot 7 Kingsdown Way blocks continues as does completion of decommissioning of Plots 5 & 6.

Following a successful application, the Council has been awarded £1.1M from the government's Brownfield Land Release Fund to demolish the vacant buildings on Plot 9 (Rowlands Walk) and Plot 5 (the 2 vacant Benhams blocks) to allow new affordable homes to be built via the AHF. The residents from Benhams Road and Rowlands Walk have been moved out of these blocks in preparation for the demolition, which is due to complete late autumn 2024.

The 4 sites (Plots 5 & 6 and 2 & 9) currently allocated to the AHF are likely to produce around 450 new homes and new retail facilities on Plot 6. The exact numbers will depend on the winning scheme submitted by the Registered Provider.

New Deaf Resource Base

A new specialist resource unit for deaf children at Newlands Primary School was completed in November 2023 at a cost of £1.5M. The new purpose-built single storey building will provide a dedicated space for specialist teaching and school interventions, including speech therapy, that will allow deaf children to meet their full potential. The children will learn alongside their peers and be fully integrated into the life and education at Newlands Primary School.

Closure of Holcroft House

The Council's residential care home Holcroft House was closed in December 2023. Several fire safety issues had been identified with the building, together with the presence of asbestos which would have required substantial work to rectify. It was not possible to find a way of keeping residents in Holcroft House during the required works without causing a significant risk to their health and wellbeing. Through a carefully managed move, residents of the home have been relocated to permanent alternative accommodation and the property closed as a care home.

Asset Development and Disposal Programme

The Council initiated an asset development and disposal programme (ADDP) in 2023/24 with the vision to drive Southampton's growth through the disposal, development, or retention of the Council's corporate, operational and investment property portfolio. Alongside the securing of capital receipts to help fund the Council's transformation programme and achieve financial sustainability, ADDP will seek to achieve wider financial and economic benefits from the disposal and development of council-owned assets. The first property to be disposed of under this programme was One Guildhall Square, for which the sale proceeds were £12.75M (net of VAT).

Integrated Highways and Transport Capital Programme

Work progressed during the year on the Council's Integrated Transport & Highways Capital Programme for 2023/24, including £19.1M of improvements via the Transforming Cities Fund project, £12.1M of works as part of the Highways Roads Programme covering carriageway resurfacing, footway & kerbing reconstruction, and footway surfacing, and £4.8M through the Future Transport Zone programme. Completed schemes include:

- improvements to Central Station Interchange;
- the Glen Eyre Quietway; and
- the Woolston and Itchen Active Travel Zone.

Tackling Health Inequalities

The Council, in partnership with University of Southampton, Solent University and Southampton Voluntary Services (SVS), has been successful in securing £5M of funding from the National Institute of Health and Care Research (NIHR) that aims to tackle health inequalities in key community groups over the next five years.

The NIHR Health Determinants Research Collaboration Southampton commenced in January 2024 and is hosted by the Council, working with the universities and SVS to combine expertise in the wider determinants of health. Bringing together local government and community knowledge with research skills from the academic field, the aim is to improve the evidence base on which policy decisions are made in important areas that impact on health and health inequalities.

Accounting issues

There have been no significant changes to the Code of Practice on Local Authority Accounting for 2023/24. Temporary relief for certain reporting on infrastructure assets first introduced through an update to the 2021/22 Code issued in November 2022 also applies to the 2023/24 Code. The requirement to implement International Financial Reporting Standard (IFRS) 16 *Leases* has been deferred from 2022/23 until 2024/25.

STATEMENT OF RESPONSIBILITIES

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 Section 151 (S151) Officer.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve the Statement of Accounts.

2. The Section 151 Officer's Responsibilities

The Council's S151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance (CIPFA)/ The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts the S151 Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Local Authority Code (any significant non-compliance being fully disclosed)

The S151 Officer has also:

- Kept proper accounting records, which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Southampton City Council at 31 March 2024 and of its income and expenditure for the year ended 31 March 2024.

Signed **M Creighton**______________________________ Date
Section 151 Officer

4. Approval of the Accounts

I certify that the Statement of Accounts has been approved by a resolution of the Audit Committee in accordance with the Accounts and Audit (England) Regulations 2015 and is authorised for issue.

Signed **S Leggett**________________________________ Date
Chair, Audit Committee

Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in Note 8 on page 48. Note 5 contains an explanation of the restatement for 2022/23.

2022/23 Restated				2023/24		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
66,947	9,128	76,075	Children & Learning	52,841	3,541	56,382
28,181	6,764	34,945	Corporate Services	31,118	1,933	33,051
44,370	22,994	67,364	Place	45,298	16,855	62,153
3,580	1,097	4,677	Strategy & Performance and CEO	3,667	(54)	3,613
96,079	6,082	102,161	Wellbeing & Housing	84,973	(5,165)	79,808
(7,379)	5,259	(2,120)	Housing Revenue Account (HRA)	(13,390)	(5)	(13,395)
0	547	547	Other Income & Expenditure	0	1,615	1,615
			Other items of expenditure and income:			
0	3,143	3,143	Revaluation & Impairment of General Fund Assets	0	6,343	6,343
0	12,598	12,598	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	0	155,392	155,392
231,778	**67,612**	**299,390**	**Cost of Services**	**204,507**	**180,455**	**384,962**
(184,018)	**(18,219)**	**(202,237)**	**Other Income & Expenditure**	**(194,832)**	**(3,028)**	**(197,860)**
47,760	**49,393**	**97,153**	**(Surplus)/Deficit**	**9,675**	**177,427**	**187,102**
(111,960)			**Opening General Fund Balance**	**(65,120)**		
(2,920)			**Opening HRA Balance**	**(2,000)**		
46,840			**Less/Plus Deficit/(Surplus) on General Fund**	**10,264**		
920			**Less/Plus Deficit/(Surplus) on HRA**	**(590)**		
(65,120)			**Closing General Fund Balance**	**(54,856)**		
(2,000)			**Closing HRA Balance**	**(2,590)**		
(67,120)			**Closing General Fund & HRA Balance**	**(57,446)**		

THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

Note 5 contains an explanation of the restatement for 2022/23.

2022/23 Restated					2023/24		
Expenditure	Income	Net			Expenditure	Income	Net
£000	£000	£000		Notes	£000	£000	£000
263,305	(187,230)	76,075	Children & Learning		269,514	(213,132)	56,382
101,884	(66,939)	34,945	Corporate Services		101,554	(68,503)	33,051
125,720	(58,356)	67,364	Place		119,496	(57,343)	62,153
6,127	(1,450)	4,677	Strategy & Performance and CEO		4,830	(1,217)	3,613
170,687	(68,526)	102,161	Wellbeing & Housing		173,603	(93,795)	79,808
82,332	(84,452)	(2,120)	Housing Revenue Account (HRA)		75,669	(89,064)	(13,395)
678	(131)	547	Other Income & Expenditure		1,724	(109)	1,615
			Other items of expenditure and income:	6			
3,143	0	3,143	Revaluation & Impairment of General Fund Assets		6,343	0	6,343
12,598	0	12,598	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		155,392	0	155,392
766,474	**(467,084)**	**299,390**	**Cost of Services**	8	**908,125**	**(523,163)**	**384,962**
25,055	(11,558)	13,497	Loss/ (Gain) on the disposal of Non Current Assets	6, 12c	49,862	(18,514)	31,348
89	0	89	Contributions to Other Local Public Bodies		91	0	91
25,144	**(11,558)**	**13,586**	**Other Operating Expenditure**		**49,953**	**(18,514)**	**31,439**
2,703	(6,890)	(4,187)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	(11,610)	(6,841)	(18,451)
15,543	0	15,543	Interest payable and similar charges	11	18,349	0	18,349
0	2,828	2,828	Interest and Investment Income	11	0	(2,412)	(2,412)
11,061	0	11,061	Net interest on the defined benefit liability (asset)	34b	3,627	0	3,627
29,307	**(4,062)**	**25,245**	**Financing, and Investment Income & Expenditure**		**10,366**	**(9,253)**	**1,113**
0	(108,146)	(108,146)	Council Tax Income		0	(115,233)	(115,233)
0	(47,632)	(47,632)	Business Rates		0	(46,796)	(46,796)
0	(47,264)	(47,264)	General Government Grants	37c	0	(39,262)	(39,262)
0	(4,668)	(4,668)	S31 Business Rates Grant for COVID-19 Reliefs	37c	0	186	186
0	(33,358)	(33,358)	Capital Grants and Contributions	37b	0	(29,307)	(29,307)
0	**(241,068)**	**(241,068)**	**Taxation and Non-Specific Grant Income**		**0**	**(230,412)**	**(230,412)**
820,925	**(723,772)**	**97,153**	**Deficit/(Surplus) on the Provision of Services**		**968,444**	**(781,342)**	**187,102**
		(40,994)	Deficit/(Surplus) on revaluation of non current assets	22a			(46,885)
		0	Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
		(367,877)	Remeasurements of the net defined benefit liability (asset)	34b			(70,701)
		(408,871)	**Other Comprehensive (Income)/Expenditure**				**(117,586)**
		(311,718)	**Total Comprehensive (Income)/Expenditure**				**69,516**

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2023	**(10,066)**	**(55,054)**	**(2,000)**	**0**	**(19,805)**	**0**	**(34,949)**	**(121,874)**	**(1,288,741)**	**(1,410,615)**
Movement in Reserves during 2023/24										
Total Comprehensive Income and Expenditure	46,294		140,808					**187,102**	(117,586)	**69,516**
Adjustments between accounting basis and funding basis under regulations (note 10)	(36,030)		(141,398)		(14,533)		(782)	**(192,743)**	192,743	**0**
Transfers to / (from) earmarked reserves (note 9)	(10,264)	10,264						**0**		**0**
(Increase) / Decrease in Year	**0**	**10,264**	**(590)**	**0**	**(14,533)**	**0**	**(782)**	**(5,641)**	**75,157**	**69,516**
Balance at 31 March 2024	**(10,066)**	**(44,790)**	**(2,590)**	**0**	**(34,338)**	**0**	**(35,731)**	**(127,515)**	**(1,213,584)**	**(1,341,099)**

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2022	**(10,066)**	**(101,894)**	**(2,920)**	**0**	**(14,750)**	**0**	**(35,835)**	**(165,465)**	**(933,432)**	**(1,098,897)**
Movement in Reserves during 2022/23										
Total Comprehensive Income and Expenditure	85,025		12,128					**97,153**	(408,871)	**(311,718)**
Adjustments between accounting basis and funding basis under regulations (note 10)	(38,185)		(11,208)		(5,055)		886	**(53,562)**	53,562	**0**
Transfers to / (from) earmarked reserves (note 9)	(46,840)	46,840						**0**		**0**
(Increase) / Decrease in Year	**0**	**46,840**	**920**	**0**	**(5,055)**	**0**	**886**	**43,591**	**(355,309)**	**(311,718)**
Balance at 31 March 2023	**(10,066)**	**(55,054)**	**(2,000)**	**0**	**(19,805)**	**0**	**(34,949)**	**(121,874)**	**(1,288,741)**	**(1,410,615)**

THE FINANCIAL STATEMENTS

Balance Sheet

31 March 2023 **£000**		**Notes**	**31 March 2024** **£000**
1,596,175	Property, Plant & Equipment	12	1,460,183
191,920	Heritage Assets	13	192,883
112,364	Investment Properties	14	123,676
9,501	Intangible Assets	15	7,723
26,827	Long Term Investments	17b	25,819
3,415	Long Term Debtors	18	3,130
1,940,202	**Non Current Assets**		**1,813,414**
11,394	Short Term Investments	17b	367
823	Stock (Inventories)		782
55,252	Short Term Debtors	18	53,453
15,634	Cash & Cash Equivalents	19	7,969
83,103	**Current Assets**		**62,571**
(3,804)	Cash & Cash Equivalents	19	(2,997)
(364)	Deferred Liabilities	38	(364)
(25,774)	Short Term Borrowing	17b	(36,830)
(105,984)	Short Term Creditors	20	(92,310)
(4,863)	Provisions	21	(4,855)
(140,789)	**Current Liabilities**		**(137,356)**
(41,118)	Long Term Creditors	17b	(37,142)
(2,970)	Provisions	21	(3,805)
(278,597)	Long Term Borrowing	17b	(277,997)
	Other Long Term Liabilities		
(12,370)	- Deferred Liabilities	38	(12,007)
(38,792)	- Cap. Grants & Conts Receipts in Advance	37a	(32,924)
(98,054)	- Pension Fund Liability	34c	(33,655)
(471,901)	**Long Term Liabilities**		**(397,530)**
1,410,615	**Net Assets**		**1,341,099**
	Useable Reserves		
(19,805)	Useable Capital Receipts Reserve	10	(34,338)
(34,949)	Cap. Grants & Conts Unapplied	10	(35,731)
(55,054)	Earmarked Revenue Reserves	9	(44,790)
(10,066)	General Fund Balance	10	(10,066)
(2,000)	Housing Revenue Account Balance	10	(2,590)
(121,874)			**(127,515)**
	Unuseable Reserves		
(435,248)	Revaluation Reserve	22a	(472,341)
1,199	Pooled Fund Adjustment Account	22g	2,206
(960,708)	Capital Adjustment Account	22b	(787,871)
98,054	Pension Reserve	22c	33,655
(5,712)	Collection Fund Adjustment Account	22d	(3,085)
2,582	Accumulated Absences Account	22e	2,760
11,092	Dedicated Schools Grant Adjustment Account	22f	11,092
(1,288,741)			**(1,213,584)**
(1,410,615)	**Total Reserves**		**(1,341,099)**

Cash Flow Statement

2022/23			2023/24
£000		Notes	£000
(97,153)	Net surplus or (deficit) on the provision of services		(187,102)
88,400	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	262,307
(59,863)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	(65,577)
(68,616)	**Net Cash Flows From Operating Activities**		**9,628**
(23,124)	Net Cash flows from Investing Activities	23 c)	(7,098)
55,722	Net Cash flows from Financing Activities	23 d)	(9,388)
(36,018)	**Net Increase / (Decrease) in Cash and Cash Equivalents**		**(6,858)**
47,848	Cash and cash equivalents at the beginning of the reporting period	23 e)	11,830
11,830	**Cash and Cash Equivalents at the End of the Reporting Period**	23 e)	**4,972**

NOTES TO THE CORE FINANCIAL STATEMENTS

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NOTES TO THE CORE FINANCIAL STATEMENTS

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

This Statement of Accounts summarises the Council's transactions for the 2023/24 financial year and its year end position as at 31 March 2024. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 (as amended). These Regulations require them to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as updated), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in these Financial Statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts are prepared on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription, and there is no notice from Government to that effect.

The Council has undertaken cashflow forecasting up to the end of March 2026. The projections for the revenue budget show that the Council has sufficient liquidity over this period. There is no identified need for borrowing to manage the working capital for revenue balances, other than possible temporary borrowing to manage fluctuations in cash flow. The Council does have a significant capital programme for the same period and there was always an intent to borrow, either from the Public Works Loans Board (PWLB) or other sources, to fund this programme. The timing and extent of the capital programme is under regular review. The Council is of the view that appropriate loan arrangements will be available if required. The Council is forecast to be within its authorised limit and operational boundary for external debt and has significant headroom between its forecast gross debt and its capital financing requirement.

In making its going concern assessment, the Council must also consider its budgets and the level of reserves.

The Council assesses its financial position for future years through the medium-term financial planning process. The MTFS agreed in March 2024 forecast a budget shortfall of £47.9M for 2025/26 and the council established a comprehensive Transformation Programme adapt | grow | thrive to address this structural budget deficit. The MTFS Update in October 2024 set out how transformation savings and other measures could reduce the budget shortfall to £13.5M (middle scenario). Work is continuing to bring forward further proposals, together with additional funding announced in the local government finance settlement, to be able to set a balanced budget for 2025/26 at Full Council on 26 February 2025. Revenue reserves (excluding schools' balances) are forecast to be £36.2M at the end of 2024/25. Whilst some progress has been made in rebuilding reserves, the level of reserves is still considered insufficient to cover the council's risks.

Although the Council has sufficient liquidity over the specified period, in view of the significant level of savings to be achieved and low revenue reserves the Council has assessed that the combination of risks and uncertainties it faces at this time creates a material uncertainty at the time of writing on its ability to continue to operate planned operational services for the period of 12 months to the end of March 2026.

b) Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- 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 inventories on the Balance Sheet

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for retrospectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure have 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature within one working day from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk or change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

d) Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

e) Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the "Minimum Revenue Provision", by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

f) Council Tax and Non-Domestic Rates (NDR)

The Council acts as an agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as a principal, collecting Council Tax and NDR for itself. Billing authorities are required by statute to maintain a separate fund (the “Collection Fund”) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council’s share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council’s General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council’s share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

g) Dedicated Schools Grant Deficit

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 require particular accounting practices in relation to the treatment of local authorities’ schools budget deficits. Where a local authority has a deficit on its schools budget relating to its accounts for financial years 2020/21 through to 2025/26 it must not charge the amount of that deficit to a revenue account. Instead, the deficit is charged to an unusable reserve the Dedicated Schools Grant Adjustment Account by a transfer from the General Fund Balance in the Movement in Reserves Statement.

h) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of Teacher’s annual leave entitlement not taken by the year end, in accordance with CIPFA’s methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable because of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are predominantly members of two separate pension schemes:

- The Local Government Pension Scheme, administered by Hampshire County Council; and
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

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

Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit scheme:

- The liabilities of the Hampshire County Council pension fund 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 earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate based on the AA corporate bond rate as required by the Code
- The assets of the Hampshire County Council pension fund attributable to the Council are included in the balance sheet at fair value:
  - Quoted securities – Current bid price.
  - Unquoted securities – Professional estimate.
  - Unitised securities – Current bid price.
  - Property – Market value.
- Where there is a net defined benefit asset it is measured at the lower of:
  - The surplus in the defined benefit plan, and
  - The asset ceiling.

The change in the net pensions' liability (asset) is analysed into the following components:

Service Cost comprising:

- *Current Service Cost* – The increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked;
- *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 Surplus or Deficit in the Comprehensive Income and Expenditure Statement; and
- *Net Interest on the Net Defined Benefit Liability (Asset)* – i.e. Net interest expense for the Council. The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments.

Remeasurements comprising:

- *Return on Planned Assets* – Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure

- *Actuarial Gains and Losses* – Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure; and
- *Contributions Paid to Hampshire County Council Pension Fund* – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the MiRS 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. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Teachers' Pension Scheme

Liabilities for the Teachers' scheme benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service line with the Comprehensive Income and Expenditure Statement is charged in year.

i) Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – The Financial Statements are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – The Financial Statements are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Financial Statements.

j) Financial instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI) – not applicable to the Council.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and that interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the Council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Where credit risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where credit risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

k) Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or the Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) line in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustments Account (CAA). Amounts in the Capital Grants Unapplied reserve are transferred to the CAA once they have been applied to fund capital expenditure.

l) Heritage Assets

The Council’s Heritage Assets are mainly held in the Council’s museums, although a number of Ancient Monuments (including the City Walls) are also held.

Heritage Assets are held principally for their contribution to knowledge and/or culture. They are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below.

Heritage Assets on the Balance Sheet

- Works of Art – the Art Collection, which includes paintings (both oil and watercolour), sketches, and sculptures, is ‘designated’ (i.e. officially recognised as significant) and numbers approximately 3,500 items, most of which have been acquired through donations.
- The Collection has been brought onto the Balance Sheet based on Insurance Values.
- Ancient Monuments – the Council has some Ancient Monuments including:
    - The Bargate; and
    - Town Walls and various Vaults.

The Council’s Ancient Monuments have been brought onto the Balance Sheet based on Historical Cost.

Heritage Assets not on the Balance Sheet

- Archaeology – The main component of the Archaeology Collections is the excavation archives which result from all archaeological investigations carried out within the City boundary, from full scale excavations, to watching briefs for building surveys. The wider Collection comprises objects, paper records, plans, drawings, photographs, reports and increasingly, digital data. Nearly 2,000 of such “site archives” have been deposited.
- Archives – This comprises a Catalogue listing – including descriptions – of over 10,000 accessioned items. The items range from individual documents to huge collections of material (e.g. 1.25 million cards in the Central Index of Merchant Seaman). It is estimated that the Archives take up approximately 2 linear miles of shelving; and
- Local and Maritime Collections – Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton’s first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are between two and three hundred thousand items in the collections. About 10% of these items are on databases or spreadsheets, the rest are still on paper records.

The Council does not consider that reliable cost or valuation information can be obtained for the items noted above. This is because of the diverse nature of the assets held and lack of comparable market values.

m) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost and carried at cost less accumulated depreciation. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

n) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s-length. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the CAA and (for any sale proceeds greater than £10,000) the Useable Capital Receipts Reserve.

o) Joint Operations

Joint operations are arrangements where the parties that have control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liability incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

p) Leases

Leases are classified as finance leases where the terms of the lease substantially transfer all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

The Council does not have any material finance or operating leases, where it is the lessee.

The Council as Lessor

- Finance Leases – the Council does not have any material finance leases where it is the lessor, although has entered into a number of Private Finance Initiative (PFI) or similar arrangements (see below); and
- Operating Leases – where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

q) Overheads and Support Services

The cost of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

r) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price; and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Community Assets – Depreciated historical cost.
- Highways Infrastructure Assets – generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which were deemed at that time to be historical cost.

- Dwellings – Current value, determined using the basis of existing use value for social housing (EUV-SH).
- Assets Under Construction – Historic cost
- All Other Assets – Current value, determined as the amount that would be paid for the asset in its existing use, (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the CAA.

Impairment

Assets are reviewed at each year-end to ascertain whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life, (i.e. freehold land and certain Community Assets), and assets that are not yet available for use, (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and Other Buildings – Straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, Plant, Furniture and Equipment – A percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.

- Infrastructure Assets –
    - Straight-line allocation up to 40 years on historical assets
    - Straight-line allocation over the following useful economic lives, for additions.

Asset	**Estimated Useful Asset Life (Years)**
Carriageways	30
Footways and cycle tracks	30
Structures (bridges, tunnels and underpasses)	120
Street lighting	50
Street furniture	30
Traffic management systems	25
Parks & Open Space Infrastructure	30
Coastal Infrastructure	50

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately to the extent that the components asset lives differ significantly.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the CAA.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment, Infrastructure or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also 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). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the CAA.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government (with modified rules in place for 2022/23 and 2023/24). The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or to meet revenue expenditure that has been capitalised in accordance with regulations or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts Reserve from the General Fund Balance in the MiRS.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MiRS.

s) Private Finance Initiatives (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- *Fair Value of the Services Received during the Year* – Debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- *Finance Cost* – A percentage interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- *Contingent Rent* – Increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- *Payment Towards Liability* – Applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- *Lifecycle Replacement Costs* – Proportion of the amounts payable are posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

In 2022/23 the Council received a rebate on its unitary charge from the refinancing of the Street Lighting PFI arrangement, which was accounted for as a contingent rent adjustment.

t) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but, either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a Note to the Financial Statements.

u) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirements and employee benefits, and the deficit on the Dedicated Schools Grant and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

v) Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MiRS from the General Fund Balance to the CAA then reverses out the amounts charged so that there is no impact on the level of Council Tax.

w) Schools

The Code of Practice on Local Authority Accounting in the United Kingdom specifies that all schools maintained by the Council are deemed to be under the Council’s control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the Council’s financial statements, applying accounting policies for recognition and measurement consistent with those applied by the Council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the Council and schools have been eliminated.

x) Value Added Tax (VAT)

All Income and expenditure, whether revenue or capital in nature, excludes any amounts related to VAT, as all VAT collected is payable to HMRC and the Council – using its ‘Section 33 status’ within the VAT Act 1994 – is able to recover all VAT paid.

y) Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

i) in the principal market for the asset or liability; or

ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

z) Rounding Convention

Unless otherwise stated the convention used in these Financial Statements is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures, and therefore may – from time-to-time – not be the strict sums of the figures presented in the text or tables.

2. Accounting Standards That Have Been Issued But Not Yet Adopted

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2024/25 Code. New or amended standards that are expected to be introduced in the 2024/25 Code that apply from 1 April 2024 are:

- IFRS 16 *Leases* – requiring all leases to be recognised on the Balance Sheet, subject to a de-minimis and exemptions. CIPFA/LASAAC deferred the mandatory requirement to account for leases in accordance with IFRS 16 from 1 April 2022 until 1 April 2024. The Council chose not to adopt IFRS 16 on a voluntary basis for 2022/23 or 2023/24. The mandatory requirements for 2024/25 will include an amendment to IFRS16 for lease liabilities in a sale and leaseback. There are also changes to the transition arrangements for service concession arrangement liabilities.

Adoption of the standard, including the amendments, is not expected to have a material impact on the Council's financial statements.

Other amended standards that apply from 1 April 2024 that have a minor impact on the Code are:

- Amendments to IAS 1 *Presentation of Financial Statements* – providing clarification of the difference between current and non-current liabilities.
- Amendments to IAS 12 *International Tax Reform: Pillar Two Model Rules* – introducing a temporary mandatory exception from accounting for deferred taxes.
- *Supplier Finance Arrangements,* which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* – additional disclosures for supplier finance arrangements.

None of these amendments are anticipated to have a material impact on the Council's financial performance and financial position.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1 (Accounting Policies), the Council has had to make certain judgements about complex transactions.

The critical judgements that have the most significant effect on the amounts in the Financial Statements are:

- **Exceptional Financial Support and Local Government Funding** – The Council's expected level of day-to-day expenditure for 2024/25 is higher than the funding available and Exceptional Financial Support from the Government (in the form of a capitalisation direction) was needed to set a balanced budget for the year. This support in only available for 1 year. There is also a high degree of uncertainty about future levels of funding for local government. The Local Government Finance Settlement agreed in February 2024 only covered 2024/25 and in the 2024 Spring Budget it was noted that the next Spending Review would not take place until after the General Election. Changes to the local government funding system have been deferred to beyond the life of the current parliament. Adult Social Care reforms have been delayed until October 2025 and it is unclear what funding will be made available to implement those reforms. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. Details of the carrying value of Property, Plant and Equipment are provided in Note 12.
- **Asset Classifications** – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used. Details of the fair value of Investment Property are provided in Note 14.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools on the Balance Sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council owns the property, has the ability to employ the staff of the school, and is able to set the admission criteria.

There are currently six types of schools:

- Community schools,
- Voluntary Aided (VA) schools,
- Voluntary Controlled (VC) schools,
- Foundation / Trust schools,
- Academies, and
- Free Schools

Community schools are owned by the Council, staff are appointed by the Council, who also sets the admission criteria. Therefore, these schools are recognised on the Council's Balance Sheet and are included within Other Land and Buildings as part of Property, Plant and Equipment.

VA schools are maintained schools and often have a religious character with the school being owned by the religious body. These schools are paid capital funding on a similar basis to other categories of school, but the governing body usually pays at least 10% of the costs of capital work. Responsibility for work to VA school premises is shared between the school's governing body and the Council. In simple terms the Council has responsibility for the playing fields and the governing body is liable for all other capital expenditure. Staff in VA schools are appointed by the schools' governing body. The value of these schools is not included in the Council's Balance Sheet. VC schools are owned by the religious body, staff are appointed by the governors, but are employed by the Council, who also sets the admission criteria. However, like VA Schools, the value of these schools is not included within the Council's Balance Sheet.

Staff in Foundation/Trust, Academy and Free schools are appointed by the schools' governing body, which also set the admission criteria. The Council does not receive the economic benefit or service potential of these schools and does not therefore recognise them on the Council's Balance Sheet once transfer agreements have been completed.

The table below illustrates the number and type of schools:

Status as at 31 March 2024	**Infant**	**Junior**	**Primary**	**Secondary**	**Other**	**Total**
Academies	8	5	11	6	2	**32**
Catholic Voluntary Aided Schools			2	1		**3**
Church of England Voluntary Aided Schools			1			**1**
Church of England Voluntary Controlled Schools			3			**3**
Community Schools			5		4	**9**
Foundation Trust	2	3	14	5	2	**26**
Free Schools			1			**1**
Grand Total	**10**	**8**	**37**	**12**	**8**	**75**

- **Accounting for Schools - Transfers to Academy Status –** When a school that is held on the Council's Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant and Equipment), and on the date of transfer to an Academy the Council accounts for this as a disposal for nil consideration. The same treatment has been applied to the construction of St Marks all-through school.

- **Highways Infrastructure Assets** - The Council has elected to take up a statutory override relating to the accounting for highways infrastructure assets. This provides that for all statements of accounts that are currently open (up to 2025/26), authorities are not required to report gross book value and accumulated depreciation for infrastructure assets, because the information is unlikely to faithfully represent the asset position to the users of the financial statements. In accordance with the temporary relief offered by the changes to the Code on accounting for infrastructure assets, Note 12(e) does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

- **Heritage Assets** – The Council does not recognise heritage assets on the Balance Sheet where information on cost or valuation is not available and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements. This applies to archives, archaeology collections and local and maritime collections. Details of the carrying value of heritage assets that are recognised on the Balance Sheet are provided in Note 13.

- **Lease Classifications –** The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on an overall assessment of a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. None of the Council's lease arrangements are considered to be finance leases. Note 31 provides further details on where the Council is acting as a lessor.

- **Contractual Arrangements –** The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets). None of the Council's contractual arrangements are considered to meet the tests of a lease.

- **PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement – see Note 32 PFI and Similar Contracts for further details.

- **Financial Assets** – The Council has assessed that its investment in the CCLA Local Authorities Property Fund should be measured at Fair Value through Profit and Loss. Note 17 provides details of the fair value of the fund.
- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. The judgements are based on the degree of certainty around the likelihood of such liabilities or whether a reliable estimate can be made. Note 21 provides further details on provisions and Note 35 for contingent liabilities.
- **Government Grants** – the Council has made judgements about whether government grants are ringfenced or unringfenced based on the conditions attached to the grant. Ringfenced grants are credited to service revenue accounts within the Comprehensive Income and Expenditure Statement (CIES), whereas unringfenced grants are recognised within taxation and non-specific grant income and expenditure within the CIES. Further details of grants received are provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of the estimation means that actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment (PPE)	The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £966M of assets were valued at current value in 2023/24. Property values will vary according to market conditions or, where valued on a depreciated replacement cost basis, land values, construction costs, lifespans and remaining useful economic life will be key variables. Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The pressures on the Council's budget makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	A 1% change to the PPE valuations made for the year would change the reported value of PPE by £9.66M. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.02M if the useful lives were reduced by one year.

Investment Property	The Council values its Investment Property (IP) annually and the fair value at 31 March 2024 was £123.7M. Key assumptions in the valuation of investment property include cash flows, market rents and yield. It is uncertain what impact the current economic climate will have on property values and there is a risk of material changes during the next year.	A 1% change to the IP valuations would change the reported value of IP by £1.2M.
NDR Appeals Provision	Since the introduction of the Business Rates Retention Scheme from 1 April 2013, local authorities are liable for successful appeals/challenges against business rates charged to businesses. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2024, the Council's share of which is £6.4M. The estimate is based on an assessment by an external advisor of the likely success of the checks and challenges outstanding on the Valuation Office Agency (VOA) list and projected appeals, adjusted for local knowledge.	An increase or reduction of the appeals provision estimate of 10%, would increase/(reduce) the Council's share of the NDR appeals provision by £0.6M.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2024 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).

Effect of changing defined benefit obligation assumptions

Approximate increase to defined benefit obligation	**%**	**£000**
0.1% decrease in Real Discount Rate	2%	21,152
1 year increase in member life expectancy	4%	48,275
0.1% increase in the Salary Increase Rate	0%	488
0.1% increase in the Pension Increase Rate (CPI)	2%	21,067

5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement and Note 8 Expenditure and Funding Analysis is based on the directorate structure in place during 2023/24. Prior year comparatives have been updated to reflect the directorate structure. In the EFA the £47.760M deficit on Net Expenditure Chargeable to the General Fund and HRA Balances, £49.393M deficit for Adjustments between the Funding and Accounting Basis and £97.153M deficit for Net Expenditure in the CIES have not changed as a result of the 2022/23 restatement. In the CIES the £820.925M Expenditure, £723.772M Income and £97.153M Deficit on the Provision of Services have not changed as a result of the 2022/23 restatement.

No other prior period adjustments have been made.

6. Material Items of Expenditure and Income

Revaluation and Impairment of Property Plant and Equipment

The Council, as in prior years, discloses downward and upward revaluations (through CIES) and impairments of General Fund and HRA properties separately. These items are disclosed separately within the CIES to avoid distortion of comparisons between years.

The significant reduction in the valuation of Council dwellings is predominantly due to a wider, downward movement in domestic property valuations over the course of 2023/24. The domestic property price indices demonstrate a significant reduction in domestic property valuations nationally, but particularly in London and the South-East, which saw an overall reduction in domestic property valuation in excess of 5% between February 2023 and February 2024. This is being driven by increases in the cost of mortgage borrowing, which is reducing the affordability of mortgages and consequently a reduction in demand and in prices for houses.

Asset Development and Disposal Programme

The Council initiated an asset development and disposal programme in 2023/24 with the aim to drive Southampton’s growth through the disposal, retention, or development of the Council’s corporate, operational and investment property portfolio. Capital receipts secured from the disposal of assets will be used to fund transformation activity across the Council and potentially to fund expenditure which is capitalised using a capitalisation direction. The first property to be disposed of under this programme was One Guildhall Square, for which the sale proceeds were £12.75M (net of VAT).

7. Events after the Reporting Period

The statement of accounts was authorised for issue by the Section 151 Officer on the 12 February 2025. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2024, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

8. Expenditure and Funding Analysis

a) Notes to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments for Capital Purposes

The Cost of Services has been adjusted to add in depreciation, impairment and revaluation gains/losses and capital expenditure on third party assets which is not recognised on the Council's balance sheet. Capital expenditure funded from revenue and PFI principal repayments have been removed. Adjustments for capital purposes have also been made to:

- **Other operating expenditure –** adjustments for capital disposals with transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure –** the statutory charge for capital financing i.e. Minimum Revenue Provision is deducted from other income and expenditure as it is not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – add in capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services -** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For financing and investment income and expenditure -** the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For services** – add in expenditure for staff holiday entitlement, add in income and expenditure not included in the outturn report, remove transfers to/from earmarked reserves and transfer costs between services and from Other Income and Expenditure.
- **For financing and investment income and expenditure** – transfer PFI finance costs and movement of impairment allowances/debt write-offs from service lines.
- **For taxation and non-specific grant income and expenditure** – represents the difference between the amount received under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Adjustments between Funding and Accounting Basis 2023/24

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes**	**Net change for the Pension Adjustments**	**Other Differences**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
Children & Learning	9,211	547	(6,217)	3,541
Corporate Services	2,890	462	(1,419)	1,933
Place	15,796	652	407	16,855
Strategy & Performance and CEO	0	98	(152)	(54)
Wellbeing & Housing	2,929	403	(8,497)	(5,165)
Housing Revenue Account (HRA)	0	513	(518)	(5)
Other Income & Expenditure	0	0	1,615	1,615
Other items of expenditure and income:				
Revaluation & Impairment of General Fund Assets	6,343	0	0	6,343
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	155,392	0	0	155,392
Cost of Services	**192,561**	**2,675**	**(14,781)**	**180,455**
Other Income and Expenditure from the Expenditure and Funding Analysis	**(25,248)**	**3,627**	**18,593**	**(3,028)**
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**167,313**	**6,302**	**3,812**	**177,427**

Adjustments between Funding and Accounting Basis 2022/23 Restated

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Children & Learning	6,716	6,298	(3,886)	9,128
Corporate Services	1,455	5,423	(114)	6,764
Place	13,814	7,784	1,396	22,994
Strategy & Performance and CEO	0	1,108	(11)	1,097
Wellbeing & Housing	2,443	4,735	(1,096)	6,082
Housing Revenue Account (HRA)	0	5,777	(518)	5,259
Other Income & Expenditure	0	0	547	547
Other items of expenditure and income:				
Revaluation & Impairment of General Fund Assets	3,143	0	0	3,143
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	12,598	0	0	12,598
Cost of Services	**40,169**	**31,125**	**(3,682)**	**67,612**
Other Income and Expenditure form the Expenditure and Funding Analysis	**(25,650)**	**11,061**	**(3,630)**	**(18,219)**
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**14,519**	**42,186**	**(7,312)**	**49,393**

b) Analysis of income and expenditure by nature

2022/23 £000	Analysis of income and expenditure by nature	2023/24 £000
	Income	
(129,148)	Revenue from contracts with service recipients	(137,212)
(412,231)	Government grants and contributions	(439,924)
(10,995)	Other service income	(14,410)
(6,890)	Income in relation to investment properties	(6,841)
2,828	Interest and investment income	(2,412)
(155,778)	Income from council tax and non-domestic rates	(162,029)
(11,558)	Proceeds from the disposal of non-current assets	(18,514)
(723,772)	**Total Income**	**(781,342)**
	Expenditure	
312,446	Employee benefits expenses	302,416
389,079	Other service expenses	392,128
67,741	Depreciation, amortisation, impairments and revaluations	202,062
15,543	Interest payable and similar charges	18,349
11,061	Net interest expense on the pension defined liability	3,627
25,055	Costs from the disposal of non-current assets	49,862
820,925	**Total Expenditure**	**968,444**
97,153	**(Surplus) or Deficit on the Provision of Services**	**187,102**

c) Analysis of service income

Analysis of Service Income 2023/24	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children & Learning	(210,624)	(2,116)	(392)	(213,132)
Corporate Services	(66,170)	(2,333)	0	(68,503)
Place	(18,998)	(28,435)	(9,910)	(57,343)
Strategy & Performance and CEO	(697)	(520)	0	(1,217)
Wellbeing & Housing	(75,052)	(16,857)	(1,886)	(93,795)
Housing Revenue Account (HRA)	0	(86,842)	(2,222)	(89,064)
Other Income & Expenditure	0	(109)	0	(109)
	(371,541)	**(137,212)**	**(14,410)**	**(523,163)**

Analysis of Service Income 2022/23 Restated	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children & Learning	(185,163)	(1,999)	(68)	(187,230)
Corporate Services	(65,034)	(1,905)	0	(66,939)
Place	(21,998)	(27,586)	(8,772)	(58,356)
Strategy & Performance and CEO	(36)	(1,414)	0	(1,450)
Wellbeing & Housing	(54,710)	(13,738)	(78)	(68,526)
Housing Revenue Account (HRA)	0	(82,375)	(2,077)	(84,452)
Other Income & Expenditure	0	(131)	0	(131)
	(326,941)	**(129,148)**	**(10,995)**	**(467,084)**

9. Transfers (to) / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in year.

	Balance 31 March 2023	Net Transfers In 2023/24	Net Transfers Out 2023/24	Balance 31 March 2024
Earmarked Reserves	£000	£000	£000	£000
General Fund				
Medium Term Financial Risk Reserve	(28,352)		18,632	(9,720)
Organisational Redesign Reserve		(2,500)		(2,500)
Transformation & Improvement Reserve		(4,663)		(4,663)
Revenue Grant Reserve - General	(5,429)		1,223	(4,206)
Investment Risk Reserve		(800)		(800)
Directorate Carry Forwards Reserve	(1,339)		1,339	0
PFI Sinking Fund	(4,375)		30	(4,345)
Insurance Reserve	(1,996)	(202)		(2,198)
On Street Parking	(3,214)		734	(2,480)
DSG Reserve	(992)	(2,995)		(3,987)
General Fund Contributions to Capital	(934)	(66)		(1,000)
Social Care Demand Risk Reserve		(2,000)		(2,000)
Other Reserves	(2,963)		278	(2,685)
	(49,594)	**(13,226)**	**22,236**	**(40,584)**
Schools				
School Balances	(5,460)		1,254	(4,206)
	(55,054)	**(13,226)**	**23,490**	**(44,790)**

The purposes of the main reserves are noted below:

Medium Term Financial Risk Reserve

As part of the Council's Medium Term Financial Strategy (MTFS) monies have been set aside on a non-recurrent basis to mitigate the risks of changes to the local government funding system, volatility of local taxation, demand pressures and the potential for planned savings to be delayed.

Organisational Redesign Reserve

The reserve holds monies to meet the financial cost of changes in staffing structures, e.g. redundancies, as a result of organisation design changes.

Transformation & Improvement Reserve

Monies set aside to fund the Transformation Programme and other improvement projects.

Revenue Grants Reserve – General

This reserve holds grant funding that has been ring-fenced to be used in future years.

Investment Risk Reserve

The reserve holds monies to provide for a potential loss on the valuation of the Council's pooled property fund investment when the statutory override on charging valuation reductions (or increases) to the General Fund ends in 2025/26.

Directorate Carry Forward Reserve

This reserve holds budget underspends carried forward for specific purposes as agreed by Council.

PFI Sinking Fund

The surplus PFI grant is held in a reserve to meet future contract liabilities and additional costs that might arise from reviewing or restructuring the councils PFI arrangements.

Insurance Reserve

This reserve holds monies to meet the potential cost of liability claims against the Council, including motor and third party injury, however, there is no commitment on the Council to pay the claim.

On Street Parking Reserve

It is a legal requirement to set aside surplus income from on street parking to be used in future years in accordance with the Road Traffic Regulation Act 1984.

DSG Reserve

This reserve holds surpluses on the Dedicated Schools Grant generated in 2022/23 and 2023/24. The cumulative deficit on the Dedicated Schools Grant is held separately in the Dedicated Schools Grant Adjustment Account (an unusable reserve) in accordance with legislation. See further details in Note 22 Unusable Reserves.

General Fund Contributions to Capital

This reserve holds monies to finance the capital programme.

Social Care Demand Risk Reserve

The reserve holds monies to mitigate the risks of demand pressures within both Children’s and Adults Social Care, such as rising client numbers or winter pressures.

10. Adjustments between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2023/24	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(3,673)							**(3,673)**	**3,673**	**0**
Depreciation and revaluation of Non Current Assets	(37,196)		(173,359)					**(210,555)**	**210,555**	**0**
Movement on Market Value of Investment Properties	9,953		2,212					**12,165**	**(12,165)**	**0**
Capital Grants and Contributions Applied	43,123		2,894					**46,017**	**(46,017)**	**0**
Capital Grants and Contributions Unapplied	782						(782)	**0**	**0**	**0**
Revenue Expenditure Funded from Capital Under Statute	(18,953)							**(18,953)**	**18,953**	**0**
Holiday pay transferred to the Accumulated Absences Account	(178)							**(178)**	**178**	**0**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(1,007)							**(1,007)**	**1,007**	**0**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(28,527)		(6,769)					**(35,296)**	**35,296**	**0**
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	23,434		5,560					**28,994**	**(28,994)**	**0**
Statutory Provision for the Financing of Capital Investment	12,345		0					**12,345**	**(12,345)**	**0**
Capital expenditure charged in-year to the GF and HRA Balances	2,000		6,001					**8,001**	**(8,001)**	**0**
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated in accordance with statute	(2,627)							**(2,627)**	**2,627**	**0**
Transfers to/(from) Major Repairs Reserves			17,967			(17,967)		**0**	**0**	**0**
Financing of HRA Assets (Major Repairs Reserve)						17,967		**17,967**	**(17,967)**	**0**
Capital Receipts in Year	12,813		5,702		(18,515)			**0**	**0**	**0**
Non-current Asset Disposals	(48,256)		(1,606)					**(49,862)**	**49,862**	**0**
Capital Receipts Financing of New Capital Expenditure					4,204			**4,204**	**(4,204)**	**0**
Adjustment for repayment/write-off of loans	(63)				(222)			**(285)**	**285**	**0**
	(36,030)	**0**	**(141,398)**	**0**	**(14,533)**	**0**	**(782)**	**(192,743)**	**192,743**	**0**

NOTES TO THE CORE FINANCIAL STATEMENTS

2022/23	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(2,635)							**(2,635)**	**2,635**	**0**
Depreciation and revaluation of Non Current Assets	(29,563)		(33,361)					**(62,924)**	**62,924**	**0**
Movement on Market Value of Investment Properties	(2,224)		42					**(2,182)**	**2,182**	**0**
Capital Grants and Contributions Applied	48,101		898					**48,999**	**(48,999)**	**0**
Capital Grants and Contributions Unapplied	(886)						886	**0**	**0**	**0**
Revenue Expenditure Funded from Capital Under Statute	(15,067)							**(15,067)**	**15,067**	**0**
Holiday pay transferred to the Accumulated Absences Account	645							**645**	**(645)**	**0**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(5,093)							**(5,093)**	**5,093**	**0**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(59,889)		(13,649)					**(73,538)**	**73,538**	**0**
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	25,533		5,819					**31,352**	**(31,352)**	**0**
Statutory Provision for the Financing of Capital Investment	11,120		0					**11,120**	**(11,120)**	**0**
Capital expenditure charged in-year to the GF and HRA Balances	0		1,790					**1,790**	**(1,790)**	**0**
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated in accordance with statute	11,760							**11,760**	**(11,760)**	**0**
Transfers to/(from) Major Repairs Reserve			20,763			(20,763)		**0**	**0**	**0**
Financing of HRA Assets (Major Repairs Reserve)						20,763		**20,763**	**(20,763)**	**0**
Capital Receipts in Year	247		11,311		(11,558)			**0**	**0**	**0**
Non-current Asset Disposals	(20,234)		(4,821)					**(25,055)**	**25,055**	**0**
Capital Receipts Financing of New Capital Expenditure					6,583			**6,583**	**(6,583)**	**0**
Adjustment for repayment of loans					(80)			**(80)**	**80**	**0**
	(38,185)	**0**	**(11,208)**	**0**	**(5,055)**	**0**	**886**	**(53,562)**	**53,562**	**0**

11. Interest Payable and Receivable

Interest Payable and Similar Charges

2022/23 £000		2023/24 £000
7,772	Interest on External Loans	9,482
4,686	PFI Schemes	5,602
422	Payments to HCC in respect of Transferred Debt	626
429	Other	623
2,234	Movement of impairment allowance & debt write-offs	2,016
15,543		**18,349**

Interest and Investment Income

2022/23 £000		2023/24 £000
(2,265)	Investments	(3,418)
5,093	(Gain) /Loss on Financial Instruments	1,006
2,828		**(2,412)**

12. Property, Plant and Equipment (PPE)

PPE are shown at a current net book value of £1,460M (2022/23 £1,596M), a decrease of £136M (2022/23 £32M increase). The basis of valuation is explained in more detail in Note 1r) (Accounting Policies). The values are shown as at 31 March 2024.

a) Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – based on replacement costs and useful lives of the main components. Useful lives range from 15 – 60 years.
- Other Land and Buildings – 30 to 70 years.
- Vehicles, Plant, Furniture & Equipment – 5 to 15 years.
- Infrastructure – 25 to 120 years – see note 1r) for further details.

b) Revaluations

The Council carries out a rolling programme that ensures that all PPE required to be measured at current value is revalued at least every five years and are reviewed yearly to ensure there are no material movements since the last valuation. Valuations were contracted out for 2023/24 and were carried out by Bruton Knowles. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

The movement in PPE for both the current and previous year are shown below and comes about due to changes to asset valuations, disposals, new acquisitions and enhancements. Movement in Infrastructure

Assets is shown separately in note e).

c) Disposals

For 2023/24 there was an overall loss of £31.5M (2022/23 - £13.5M loss) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, mainly as a result of the transfer of a voluntary controlled school to the Church of England, offset by a £6.1M gain relating to the Housing Revenue Account.

d) Current Value

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

e) Infrastructure Assets

In accordance with the temporary relief offered by the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The Net Book Value (NBV) of Infrastructure Assets at 31 March 2024 was £301.7M (£279.5M at 31 March 2023). Movements in the NBV are shown below.

Movement on Infrastructure Assets	**2022/23**	**2023/24**
	£000	**£000**
Balance at start of year	**256,929**	**279,538**
Additions	29,278	29,524
Depreciation in Year	(6,669)	(7,376)
Balance at End of Year	**279,538**	**301,686**

Reconciling Note for PPE

	2022/23	**2023/24**
	£000	**£000**
Infrastructure Assets	279,538	301,686
Other PPE Assets	1,316,637	1,158,497
Balance at End of Year	**1,596,175**	**1,460,183**

The authority has determined in accordance with Regulation [30M England] of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be de-recognised for infrastructure assets when there is replacement expenditure is nil.

Movement in Property, Plant & Equipment (PPE)

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2023	753,564	477,649	73,945	2,769	1,442	50,003	**1,359,372**	91,390
Adjustment to Previous Year Charges	0	0	0	0	0	0	**0**	0
	753,564	477,649	73,945	2,769	1,442	50,003	**1,359,372**	91,390
Additions	35,306	4,490	4,128	0	0	3,061	**46,985**	0
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	29,398	0	0	0	0	**29,398**	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(172,279)	(11,016)	0	0	1,569	0	**(181,726)**	2,351
Derecognition-Disposals	(1,607)	(11,869)	(2,495)	0	0	(33,509)	**(49,480)**	
Other Reclassifications	10,801	(238)	0	238	0	(10,801)	**0**	
At 31 March 2024	**625,785**	**488,414**	**75,578**	**3,007**	**3,011**	**8,754**	**1,204,549**	**93,741**
Accumulated Depreciation and Impairment								
At 1 April 2023	0	(12,065)	(30,263)	(361)	(46)	0	**(42,735)**	(12,483)
Adjustment to Previous Year Charges							**0**	0
	0	(12,065)	(30,263)	(361)	(46)	0	**(42,735)**	(12,483)
Depreciation in Year	(17,257)	(18,684)	(5,481)	(18)	(2)	0	**(41,442)**	(4,632)
Written out to the Revaluation Reserve	0	17,487	0	0	0	0	**17,487**	
Written out to the (Surplus)/ Deficit on the Provision of Services	17,257	2,733	0	0	0	0	**19,990**	6,151
Derecognition-Disposals	0	648	0	0	0	0	**648**	
At 31 March 2024	**0**	**(9,881)**	**(35,744)**	**(379)**	**(48)**	**0**	**(46,052)**	**(10,964)**
Net Book Value								
At 31 March 2024	**625,785**	**478,533**	**39,834**	**2,628**	**2,963**	**8,754**	**1,158,497**	**82,777**
At 31 March 2023	**753,564**	**465,584**	**43,682**	**2,408**	**1,396**	**50,003**	**1,316,637**	**78,907**

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at Historic Cost			39,834	301,686	2,628		8,754	**352,902**
Valued at Fair Value in:								
2023/24	625,785	338,207				1,800		**965,792**
2022/23		113,025				0		**113,025**
2021/22		11,140				0		**11,140**
2020/21		8,135				64		**8,199**
2019/20		7,231				1,099		**8,330**
Deminimus		795				0		**795**
Net Book Value as at 31 March 2024	**625,785**	**478,533**	**39,834**	**301,686**	**2,628**	**2,963**	**8,754**	**1,460,183**

Movement in Property, Plant & Equipment (PPE) 2022/23

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2022	773,194	469,170	65,369	2,889	1,442	50,119	**1,362,183**	79,438
Adjustment to Previous Year Charges	(19,153)	0	0	0	0	0	**(19,153)**	0
	754,041	469,170	65,369	2,889	1,442	50,119	**1,343,030**	79,438
Additions	32,804	3,719	9,204	0	0	4,227	**49,954**	12
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	30,031	0	0	0	0	**30,031**	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(32,804)	(5,162)	0	0	0	0	**(37,966)**	11,940
Derecognition-Disposals	(4,820)	(20,229)	(628)	0	0	0	**(25,677)**	
Other Reclassifications	4,343	120	0	(120)	0	(4,343)	**0**	
At 31 March 2023	**753,564**	**477,649**	**73,945**	**2,769**	**1,442**	**50,003**	**1,359,372**	**91,390**
Accumulated Depreciation and Impairment								
At 1 April 2022	(19,153)	(9,909)	(25,876)	(349)	(32)	0	**(55,319)**	(10,770)
Adjustment to Previous Year Charges	19,153						**19,153**	0
	0	(9,909)	(25,876)	(349)	(32)	0	**(36,166)**	(10,770)
Depreciation in Year	(20,308)	(15,325)	(4,850)	(17)	(14)	0	**(40,514)**	(3,635)
Written out to the Revaluation Reserve	0	10,963	0	0	0	0	**10,963**	
Written out to the (Surplus)/ Deficit on the Provision of Services	20,308	1,917	0	0	0	0	**22,225**	1,922
Derecognition-Disposals	0	294	463	0	0	0	**757**	0
Other Reclassifications	0	(5)	0	5	0	0	**0**	0
At 31 March 2023	**0**	**(12,065)**	**(30,263)**	**(361)**	**(46)**	**0**	**(42,735)**	**(12,483)**
Net Book Value								
At 31 March 2023	**753,564**	**465,584**	**43,682**	**2,408**	**1,396**	**50,003**	**1,316,637**	**78,907**
At 31 March 2022	**754,041**	**459,261**	**39,493**	**2,540**	**1,410**	**50,119**	**1,306,864**	**68,668**

Capital Commitments

At 31 March 2024, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2024/25 and future years budgeted to cost £73.1M. Similar commitments at 31 March 2023 were £77.5M. The major commitments are:

	2022/23	2023/24
	£000	**£000**
HRA - Supporting Communities	205	265
HRA - Improving Quality of Homes	5,091	5,121
HRA - Supporting Independent Living	7,149	9,105
HRA - Making Homes Safe	33,903	43,169
HRA - Making Homes Energy Efficient	8,028	9,127
HRA - Regeneration	0	455
Southampton All Through School	2,138	395
Chamberlayne School	2,267	0
School Condition Work	2,271	137
Newland Hearing Centre	1,426	60
SEND Expansion	0	1,128
Desktop Refresh	530	127
Electric & Fleet Vehicles	4,036	75
Corporate Council Buildings	1,145	0
Public Sector Decarbonisation Scheme	799	0
Heritage Asset Investment	1,177	765
Outdoor Sports Centre Improvements	239	233
Future Transport Zone	5,084	2,458
Other Various Minor Commitments	2,011	488
Total	**77,499**	**73,108**

13. Heritage Assets

As set out in our Accounting Policies, Note 1l) (Accounting Policies), the Council's Heritage Assets are predominantly held in the Council's Museums.

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
Cost or Valuation			
01 April 2022	190,000	1,303	191,303
Additions		646	646
Adj for depreciation previously written out			0
31 March 2023	**190,000**	**1,949**	**191,949**
Accumulated Depreciation and Impairment			
01 April 2022	0	(29)	(29)
31 March 2023	**0**	**(29)**	**(29)**
Net Book Value			
31 March 2023	**190,000**	**1,920**	**191,920**
31 March 2022	**190,000**	**1,274**	**191,274**

	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
Cost or Valuation			
01 April 2023	190,000	1,949	191,949
Additions		963	963
Adj for depreciation previously written out			0
31 March 2024	**190,000**	**2,912**	**192,912**
Accumulated Depreciation and Impairment			
01 April 2023	0	(29)	(29)
Depreciation		0	0
31 March 2024	**0**	**(29)**	**(29)**
Net Book Value			
31 March 2024	**190,000**	**2,883**	**192,883**
31 March 2023	**190,000**	**1,920**	**191,920**

14. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2022/23 £000		2023/24 £000
(6,890)	Rental Income	(6,841)
521	Operating Expenditure	555
(6,369)	**Net (Income)/ Expenditure**	**(6,286)**
2,182	Net (Gains) / Losses from fair value adjustments	(12,165)
(4,187)	**Total Net (Income) / Expenditure**	**(18,451)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2022/23 £000	2023/24 £000
Balance at start of year	**114,136**	**112,364**
Additions:		
Purchases	544	177
Subsequent Expenditure	0	0
Disposals	(134)	(1,030)
Net gains / (losses) from fair value adjustments	(2,182)	12,165
Balance at End of Year	**112,364**	**123,676**

The fair value hierarchy is based on the relative reliability and relevance of the information used in the valuation. Investment properties are valued on an income approach that is based on capitalisation of current rental income and taking into account anticipated uplifts at the next rent review, lease expiry or break option. This uplift and the discount rate are derived from rates implied by market transactions of other property. The transactions from which the uplifts and discount rates are derived are not sufficiently similar for direct comparison to be made and adjustments have to be made to the observable data of comparable transactions. We therefore take the view that the inputs are unobservable i.e. level 3 for the purposes of fair value hierarchy classification.

15. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

Expenditure on intangible assets to date generally relates to the purchase of software. The capitalised expenditure will be depreciated over the useful life of each asset and is charged to service line(s) in the Comprehensive Income and Expenditure Statement (from the year following acquisition).

Purchased Software

	31 March 2023	31 March 2024
	£000	**£000**
Gross carrying amount	16,854	17,655
Derecognition of Assets fully amortised	(2,527)	(324)
	14,327	**17,331**
Accumulated amortisation	(5,519)	(7,830)
Net Carrying Amount at Start of the Year	**8,808**	**9,501**
Purchases	3,328	1,895
Amortisation for the period	(2,635)	(3,673)
Net Carrying Amount at End of the Year	**9,501**	**7,723**

16. Assets Held for Sale (AHFS)

As at 31 March 2024 there are no surplus assets that have been marketed for sale and are expected to be disposed of within the next 12 months and there were none in the preceding year. Proposals for asset sales are likely to come forward in the next 12 months as part of the Asset Development and Disposal Programme.

17. Financial Instruments

a) Financial Instruments Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and Government grants, do not give rise to financial instruments.

The term ‘financial instrument’ covers both financial assets and financial liabilities. These range from straight forward trade receivables and trade payables to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Council’s borrowing, service concession arrangements (PFI and similar contracts), and investment transactions are classified as financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council. It can be represented by a contractual obligation to deliver cash or financial assets, or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The majority of the Council’s financial liabilities held during the year are measured at amortised cost and comprised:

- Long-term loans from the Public Works Loan Board (PWLB) and commercial lenders,
- Short-term loans from other local authorities,
- Overdraft with Lloyds bank,
- Private Finance Initiative contracts detailed in Note 32 (PFI and Similar Contracts), and
- Trade payables for goods and services received.

Transferred debt from Hampshire County Council is not considered to be a financial instrument, as it arises from local government reorganisation rather than a contractual agreement.

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council. It is represented by cash equity instruments or a contractual right to receive cash or another financial asset or an obligation to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are held under the following classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council’s business model is to collect those cash flows) comprising:
  - cash in hand,
  - bank current and deposit accounts,
  - loans to other local authorities,
  - covered bonds issued by banks and building societies,
  - bonds issued by multilateral development banks and large companies,
  - loans made for service purposes,
  - trade receivables for goods and services provided.

- Fair value through profit and loss (all other financial assets) comprising:
  - money market funds managed by fund managers,
  - pooled property funds managed by CCLA fund managers,
  - equity investments

Financial assets held at amortised cost are shown net of a loss allowance reflecting the likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

b) Financial Instruments Balances

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following tables:

Financial Liabilities	**Long Term** **31 March 2023** **£000**	**Long Term** **31 March 2024** **£000**	**Short Term** **31 March 2023** **£000**	**Short Term** **31 March 2024** **£000**	**Total** **31 March 2023** **£000**	**Total** **31 March 2024** **£000**
Loans at amortised cost:						
- Principal sum borrowed	(278,597)	(277,997)	(24,600)	(34,600)	(303,197)	(312,597)
- Accrued interest			(1,174)	(2,230)	(1,174)	(2,230)
Total Borrowing	**(278,597)**	**(277,997)**	**(25,774)**	**(36,830)**	**(304,371)**	**(314,827)**
Loans at amortised cost:						
- Bank Overdraft			(3,804)	(2,997)	(3,804)	(2,997)
Total Cash Overdrawn	**0**	**0**	**(3,804)**	**(2,997)**	**(3,804)**	**(2,997)**
Liabilities at amortised cost:						
- Finance leases						0
- PFI arrangements	(41,081)	(37,105)			(41,081)	(37,105)
- Other long-term creditors	(37)	(37)			(37)	(37)
Total Long-term Creditors	**(41,118)**	**(37,142)**	**0**	**0**	**(41,118)**	**(37,142)**
Liabilities at amortised cost:						
- PFI arrangements			(3,294)	(3,976)	(3,294)	(3,976)
- Trade payables			(33,236)	(34,961)	(33,236)	(34,961)
Included in Creditors	**0**	**0**	**(36,530)**	**(38,937)**	**(36,530)**	**(38,937)**
Total Financial Liabilities	**(319,715)**	**(315,139)**	**(66,108)**	**(78,764)**	**(385,823)**	**(393,903)**

Financial Assets	**Long Term** **31 March 2023** **£000**	**Long Term** **31 March 2024** **£000**	**Short Term** **31 March 2023** **£000**	**Short Term** **31 March 2024** **£000**	**Total** **31 March 2023** **£000**	**Total** **31 March 2024** **£000**
At amortised cost						
- Principal	1,026	1,025	11,060	0	12,086	1,025
- Accrued interest			53	53	53	53
- Fair value adjustments						
At fair value through profit & loss						
- Principal	27,000	27,000			27,000	27,000
- Accrued interest	0	0	281	314	281	314
- Fair value adjustments	(1,199)	(2,206)			(1,199)	(2,206)
Total Investments	**26,827**	**25,819**	**11,394**	**367**	**38,221**	**26,186**
Loans and Receivables						
- Cash						
- Cash equivalent at amortised cost						
At amortised cost						
- Principal			144	139	144	139
At fair value through profit & loss						
- Principal			15,490	7,830	15,490	7,830
- Accrued interest						0
Total Cash and Cash Equivalents	**0**	**0**	**15,634**	**7,969**	**15,634**	**7,969**
At amortised costs						
- Trade receivables			29,393	26,757	29,393	26,757
- Loans made for service purposes	3,415	3,130	0	0	3,415	3,130
Included in Debtors	**3,415**	**3,130**	**29,393**	**26,757**	**32,808**	**29,887**
Total Financial Assets	**30,242**	**28,949**	**56,421**	**35,093**	**86,663**	**64,042**

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under ‘current liabilities’ or ‘current investments’. This includes accrued interest on long term liabilities and investments that is payable/receivable in 2024/25.

c) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Council had no financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

d) Financial Instruments – Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

	2022/23	2023/24			
		Financial Liabilities	Financial Assets		
	Total £000	Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	Total £000
Interest expense	13,309	16,333			16,333
Gains/losses on derecognition	0	0			0
Impairment Losses	2,234		2,016		2,016
Interest Payable and Similar Charges	**15,543**	**16,333**	**2,016**	**0**	**18,349**
Interest income	(2,265)		(2,134)	(1,285)	(3,419)
Gains/losses on derecognition	5,093			1,007	1,007
Interest and Investment Income	**2,828**	**0**	**(2,134)**	**(278)**	**(2,412)**
Net Gain / (Loss) for the Year	**18,371**	**16,333**	**(118)**	**(278)**	**15,937**

e) Financial Instruments – Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price.

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2024, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2024.
- The fair values of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- **Level 1** – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- **Level 2** – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

- **Level 3** – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

The fair value of financial liabilities held at amortised cost is lower than their balance sheet carrying amount. This is because the authority's portfolio of loans includes a number of loans where the interest rate payable is lower than the current rates available for similar loans as at the Balance Sheet date.

Balance Sheet 31 March 2023 £000	Fair Value 31 March 2023 £000		Fair Value Level	Balance Sheet 31 March 2024 £000	Fair Value 31 March 2024 £000
		Financial Liabilities held at amortised cost			
(289,197)	(236,519)	Public Works Loans	2	(288,597)	(241,827)
(9,000)	(9,704)	LOBO Loans	2	(4,000)	(4,357)
(44,375)	(56,768)	PFI/Finance Lease Liabilities	2	(41,081)	(52,747)
(342,572)	**(302,991)**			**(333,678)**	**(298,931)**
		Liabilities for which Fair Value is not disclosed*			
(37)		Other Long Term Creditors		(37)	
(6,174)		Short Term borrowing		(22,230)	
(3,804)		Bank Overdraft		(2,997)	
(33,236)		Trade Payables (Creditors)		(34,961)	
(43,251)				**(60,225)**	
(385,823)		**Total Financial Liabilities**		**(393,903)**	

** The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.*

The fair value of financial assets held at amortised cost is higher than the balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Balance 31 March 2023 £000	Fair Value 31 March 2023 £000		Fair Value	Balance 31 March 2024 £000	Fair Value 31 March 2024 £000
		Financial Assets held at Fair Value through P&L			
15,490	15,490	Money Market Funds	1	7,830	7,830
25,801	25,801	Property Funds	2	24,794	24,794
41,291	**41,291**			**32,624**	**32,624**
		Financial Assets held at Amortised Costs			
1,006	1,074	Corporate, Covered and Government Bonds	1	1,005	1,058
1,006	**1,074**			**1,005**	**1,058**
		Assets for which Fair Value is not disclosed**			
		Recorded on balance sheet as:			
3,415		Long Term Debtors		3,130	
11,394		Short Term investments		367	
20		Shares in unlisted companies		20	
144		Cash and Cash Equivalents		139	
29,393		Trade Receivables (Debtors)		26,757	
0		Other Debtors		0	
44,366				**30,413**	
86,663		**Total Financial Assets**		**64,042**	

***The Council holds shares in the UK Municipal Bond Agency which are carried at cost of £20k because their fair value cannot be measured reliably. This is because the company has no established trading history and there are no similar companies whose shares are traded, and which might provide comparable market data.*

f) Financial Instruments – Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Department of Levelling Up, Housing and Communities (formerly Ministry of Housing, Communities and Local Government) Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy, together with its Treasury Management Practices seek to achieve a suitable balance between risk and return or costs.

The main risks covered are:

- **Credit Risk** – The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the other Council.
- **Liquidity Risk** – The possibility that the Council might not have the cash available to make contracted payments on time.
- **Market Risk** – The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

g) Credit Risk

Treasury Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK Government and other local authorities and organisations without credit ratings upon which the Council will receive independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A maximum limit of £10M can be invested with a single counterparty (other than the UK Government) subject to this being no more than 10% of total investments. For unsecured investments in banks, building societies and companies, a smaller limit of £5M applies and in the case of money market funds being no more than 0.5% of any one individual fund. The Council also sets a total group investment limit for institutions that are part of the same banking group. A limit is also set for investments which can be invested for periods over one year.

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments of £34.1M (2022/23 £53.9M) cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2024 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Governance Committee on 13 February 2023. The Treasury Strategy can be seen as Item 27 on the Agenda found via the following web link:

Treasury Management Strategy and Prudential Limits 2023/24 to 2026/27

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2024 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

	Long Term		Short Term	
Credit Rating	**2023 £000**	**2024 £000**	**2023 £000**	**2024 £000**
AAA	1,006	1,005	53	53
AA+			0	0
AA			0	0
AA-			11,060	0
A+			10,080	7,820
A			5,554	149
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	25,801	24,794	281	314
Total Investments	**26,827**	**25,819**	**27,028**	**8,336**

* *Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money. For risks relating to pooled funds see "Price Risk" below.*

The above analysis shows that all deposits outstanding as at 31 March 2024 met the Council's minimum credit rating criteria of A or above.

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2024 (and 31 March 2023) falls below the Council's de-minimis level of £0.01M so no offset was made.

Trade Receivables

The Council's maximum exposure to credit risk is set out below. As per the Code requirements, this only includes debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions, (e.g. council tax, business rates), are excluded as they have not arisen from contractual trading activities.

Trade Debtors and Impairment Allowance

	Outstanding 31 March 2023 £000	**Outstanding 31 March 2024 £000**
Trade Debtors	29,393	**26,757**
Trade Debtors Impairment Allowance	(8,659)	**(9,612)**

Trade debtors are not subject to internal credit rating and have been collectively assessed in the following groupings for the purposes of calculating expected credit losses:

- Adult Social Care clients (£2.637M)
- Housing tenants (£6.649M)
- Other service recipients (£0.326M)

Expected credit losses are calculated using provision matrices based on historical data for defaults adjusted for current and forecast economic conditions.

Debt write-off is considered when normal recovery procedures have been unable to secure payment. Prior to write-off, all possible action will have been taken to secure the debt, however the extent to which it is pursued is dependent on the amount of the debt and the financial circumstances of the debtor.

The following analysis summarises the Council’s trade debtors by due date.

2022/23 £000		2023/24 £000
	Trade debtors, analysed by age	
8,901	Less than two months	6,368
6,289	Two to six months	5,506
4,966	Six months to one year	5,195
9,237	More than one year	9,688
29,393		**26,757**

h) Liquidity Risk

The Council has ready access to borrowing at favourable rates from the PWLB and other local authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates, this is managed by maintaining a spread of fixed rate loans and ensuring that no more than 50% of the Council’s borrowing matures in any one financial year.

The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The maturity analysis of the principal borrowed as at 31 March 2024 was as follows:

Outstanding 31 March 2023	% of Total Portfolio	Total Financial Liabilities	Outstanding 31 March 2024	% of Total Portfolio
£000	**%**	**Source of Loan**	**£000**	**%**
(289,197)	75	Public Works Loan Board	(288,597)	73
(14,000)	3	Other Financial Institutions (borrowing)	(24,000)	6
(33,236)	9	Trade Payables	(34,961)	9
(49,390)	13	Other Financial Institutions	(46,345)	12
(385,823)	**100**		**(393,903)**	**100**
		Analysis of Loans by Maturity		
(57,108)	15	Less than 1 Year	(74,764)	19
(14,576)	4	Between 1 and 2 years	(14,085)	4
(42,256)	11	Between 2 and 5 years	(43,374)	11
(74,119)	19	Between 5 and 10 years	(79,610)	20
(38,917)	10	Between 10 and 20 years	(33,223)	8
(149,847)	39	Between 20 and 40 years	(144,847)	37
0	0	Over 40	0	0
(9,000)	2	Uncertain Date**	(4,000)	1
(385,823)	**100**		**(393,903)**	**100**

**Please note that the authority has £4M of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. The maturity date is therefore uncertain, however it is treated as short term within the accounts because the loans could be called within the year.*

The Council's long term liabilities (which include borrowing detailed in the previous table) are shown in the table below:

Loans and Other Long term Liabilities Outstanding (Nominal Value)

	Outstanding 31 March 2023	Outstanding 31 March 2024
Source	**£000**	**£000**
Public Works Loan Board	(289,197)	(288,597)
Market Debt	(9,000)	(4,000)
Temporary Borrowing	(5,000)	(20,000)
PFI Liabilities	(44,375)	(41,081)
Other long-term Creditors	(37)	(37)
Total	**(347,609)**	**(353,715)**

i) Market Risk

Interest Rate Risk

The Council is exposed to risks in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall

Investments measured at amortised costs and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services.

Movements in the fair value of fixed rate investments measured at fair value will be reflected in the Surplus or Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2024 £348.3M (109%) (2022/23 £326.1M (111%)) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £28.8M (2022/23 £32.4M) net investments exposed to variable rates.

The table below shows that the risk to the provision of services of changes in interest rates. This reflects the requirement under IFRS 9 to show the impact of a decrease in the fair value of pooled investment funds and that the Council has taken on additional risk by increasing the amount it intends to borrow short term in place of taking long term fixed rate debt.

If interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

2022/23		2023/24
£000		**£000**
752	Increase in interest payable on variable rate borrowings	1,869
(200)	Increase in interest payable on variable rate investments	(200)
1,204	Decrease in fair value of investmets held at FVPL (assumes 5%)	1,084
1,756	**Impact on the Provision of Services (Surplus) / Deficit**	**2,753**
308	Share of overall impact debited/credited to HRA	301
(37,580)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost *(no impact on Comprehensive Income and Expenditure)*	(51,942)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

The Council has £4M (2023: £9M) of “Lender’s option, borrower’s option” (LOBO) loans with maturity dates between 2035 and 2042 where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. The likelihood of the lender increasing the rate increases with the rise in market interest rates during the year.

Price Risk

The market prices of the Council’s fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk as described below.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2024 the Council had £27M (2022/23 £27M) invested in the Local Authority Property Fund which was valued with a reduction in fair value of £1.0M (2022/23 £5.1M decrease), taking the fair value from £25.8M to £24.8M. A 5% fall in commercial property prices would result in a £1.1M (2022/23 £1.2M) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

18. Debtors

The Long Term Debtors balance represents loans and advances due to the Council as at 31 March 2024.

31 March 2023 £000		31 March 2024 £000
3,415	Housing Improvement Loans	3,130
3,415		**3,130**

The Short Term Debtors balance represents the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2024.

31 March 2023 £000	Debtors	31 March 2024 £000
9,524	Central Government	8,198
4,421	Other Local Authorities	5,031
2,245	NHS Bodies	5,545
67,963	Other Entities and Individuals	62,253
(28,902)	Debtors Impairment Allowance	(27,574)
1	Public Corporations and Trading Funds	0
55,252	**Total Debtors**	**53,453**

19. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and will also include bank overdrafts that are repayable on demand and that are integral to the authority's cash management. Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Although the balance shown below shows that the bank accounts were overdrawn by £3.0M (2022/23 £3.8M overdrawn), the Council's actual position at the Bank was a credit balance of £0.6M at 31 March 2024 (£0.6M credit at 31 March 2023). The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

The net balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

31 March 2023 £000		31 March 2024 £000
(3,804)	Bank Accounts	(2,997)
(3,804)		(2,997)
15,490	Money Market Funds	7,830
0	Call Accounts	0
144	Petty Cash	139
15,634		7,969
11,830		**4,972**

20. Creditors

The Creditors balance represents the estimated outstanding liabilities as at 31 March 2024.

Creditors

31 March 2023 £000		31 March 2024 £000
39,637	Central Government	26,198
4,333	Other Local Authorities	5,489
3,276	NHS Bodies	2,568
58,738	Other Entities and Individuals	58,055
105,984	**Total Creditors**	**92,310**

The £13.4M reduction in central government creditors relates primarily to a reduction in amounts repayable for government funded schemes that were paid on account, including business rates relief (£7.3M), energy support schemes (£1.8M) and support for businesses during the COVID-19 pandemic (£0.9M).

21. 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:

	Balance at 31 March 2023 £000	Additional Provisions Made in Year £000	Amounts Used in Year £000	Unused amounts reversed in year £000	Balance at 31 March 2024 £000
General Fund					
NDR Appeals Provision	5,257	14,344	(13,251)		6,350
General Insurance Funds	2,400		(396)		2,004
Other Provisions	176	130			306
Total	**7,833**	**14,474**	**(13,647)**	**0**	**8,660**

The Provisions are estimated to be utilised as follows:

	Short Term			Total Long Term	Balance at 31 March 2024
	Due within 1 Year	Due between 2 to 5 years	Over 5 years		
	£000	£000	£000	£000	£000
General Fund					
NDR Appeals Provision	3,899	2,451	0	2,451	6,350
General Insurance Funds	650	1,354	0	1,354	2,004
Other Provisions	306	0	0	0	306
Total	**4,855**	**3,805**	**0**	**3,805**	**8,660**

a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in year and earlier years and other Rateable Value list amendments. Therefore, the Council's share of the provision (49% in 2023/24) has been recognised as the best estimate of the amount that businesses have been overcharged up to 31 March 2024.

The estimate is based on an assessment by an external advisor of the likely success of the appeals/checks/challenge outstanding on the Valuation Office Agency (VOA) list and projected appeals, adjusted for local knowledge.

b) Insurance Provisions

The Insurance Funds are used to meet claims that fall within the policy excess or deductible, i.e. where the Council has taken advantage of 'self-insurance'. All liability and property claims settled below £125,000 and £40,000 respectively are met from the internal insurance funds together with all motor claims below £25,000. Contributions to the fund are reviewed annually based on factors such as exposure, (e.g. employee numbers, nature of operations, sums insured, vehicle numbers), claims experience and outstanding liabilities.

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2024 amounted to £2.0M (2022/23 £2.4M). Additionally, a further £1.7M (2022/23 £1.5M) is held in an insurance reserve to meet the potential cost of liability claims, including motor and third party injury, for which there is no commitment on the Council to pay the claim. The merits of each claim are investigated and claims will only be considered where it is deemed that the Council has been negligent or is at fault and is legally liable to pay compensation. The provision figure against an individual claim is reviewed periodically by the claims handler when further information becomes available regarding the circumstances of the claim, extent of injury, value of loss etc. 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 decision of the Courts.

The fund position is fluid which reflects the ongoing process of claims being settled and new claims being received. The insurance funds are however monitored on a monthly basis to ensure that overall provision remains adequate. In addition, consideration is taken of any external factors that might affect the adequacy of the Council's self-insurance fund for example changes to the discount rate which is the rate used to calculate personal injury compensation awards and general claims inflation.

c) Other Provisions

All other provisions are not material.

22. Unusable Reserves

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost,
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2022/23 £000		2023/24 £000
(408,605)	Balance Brought Forward	(435,248)
(51,070)	Upward revaluations of assets	(99,076)
10,076	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	52,191
(40,994)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(46,885)
5,628	Difference between fair value depreciation and historical cost depreciation	8,926
8,723	Accumulated Revaluations on Disposals	866
(435,248)	**Balance Carried Forward**	**(472,341)**

b) Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 10 (Adjustments between Accounting Basis and Funding Basis Under Regulations) provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2022/23 **£000**		**2023/24** **£000**
(965,045)	Balance Brought Forward	(960,708)
	Capital Financing	
(6,583)	Usable Capital Receipts	(4,204)
(48,999)	Capital Grants & Contributions	(46,017)
(20,763)	HRA Financing from the Major Repairs Reserve	(17,967)
(1,790)	Revenue Contributions	(8,001)
	Other Movements	
15,067	Revenue Expenditure Funded from Capital under Statute	18,953
2,182	Net gains/losses from fair value adjustments on Investment	(12,165)
2,635	Amortisation of Intangibles	3,673
62,924	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	210,555
25,055	Disposals	49,862
(5,628)	Historic Cost Depreciation Adjustment	(8,926)
(8,723)	Accumulated Revaluations on Disposals	(866)
(11,120)	Provision for the Financing of Capital Investment	(12,345)
80	Other adjustments	285
(960,708)	**Balance Carried Forward**	**(787,871)**

c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them.

The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2022/23 **£000**		**2023/24** **£000**
423,745	Balance Brought Forward	98,054
(367,877)	Remeasurement of the net defined benefit liability/(asset)	(70,701)
73,538	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the Provision of Services in the comprehensive Income and Expenditure Statement	35,296
(31,352)	Employer's pension contributions and direct payments to pensioners payable in the year.	(28,994)
98,054	**Balance Carried Forward**	**33,655**

d) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and business rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2022/23		2023/24
£000		**£000**
6,048	Balance Brought Forward	(5,712)
3,093	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	278
(14,853)	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	2,349
(5,712)	**Balance Carried Forward**	**(3,085)**

e) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences for staff, earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2022/23		2023/24
£000		**£000**
3,227	Balance Brought Forward	2,582
(3,227)	Settlement or cancellation of accrual made at the end of the preceding year	(2,582)
2,582	Amounts accrued at the end of the current year	2,760
2,582	**Balance Carried Forward**	**2,760**

f) Dedicated Schools Grant Adjustment Account

Regulations effective from 1 April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for each of the financial years 2020/21 to 2025/26 it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account was created for that purpose. For 2023/24 there was a DSG in-year surplus and this has been transferred into the DSG Reserve (see Note 9 Transfers to/from Revenue Reserves).

Further details on the deployment of DSG are provided in Note 28.

2022/23		2023/24
£000		£000
11,092	Balance Brought Forward	11,092
0	Reversal of the deficit on the Dedicated Schools Grant within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	0
11,092	**Balance Carried Forward**	**11,092**

g) Pooled Fund Adjustment Account

This account holds fair value gains and losses on pooled investment funds (non-capital) which are not recognised in the General Fund in accordance with a government issued statutory override. The statutory override runs to 31 March 2025.

2022/23		2023/24
£000		£000
(3,894)	Balance Brought Forward	1,199
(3,894)		1,199
5,093	(Upward) / Downward Revaluation of Investments	1,007
	Downward Revaluation of Investments not charged to the Surplus/ Deficit on the Provision of Service	
1,199	**Balance Carried Forward**	**2,206**

23. Notes to Cash Flow Statement

a) Reconciliation of Net Surplus or (Deficit) on the Provision of Services to Net Cash Flows from Operating Activities

2022/23 £000		2023/24 £000
(97,153)	**Net Surplus or (Deficit) on the Provision of Services**	**(187,102)**
	Adjust net surplus or deficit on the provision of services for non cash movements	
47,183	Depreciation	48,818
15,741	Movement on assets charged to revenue	161,737
2,635	Amortisation	3,673
5,093	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	1,007
447	Increase/(Decrease) in Interest Creditors	1,056
(45,149)	Increase/(Decrease) in Creditors	(1,212)
(27)	(Increase)/Decrease in Interest and Dividend Debtors	(33)
(1,341)	(Increase)/Decrease in Debtors	2,394
86	(Increase)/Decrease in Inventories	41
42,186	Pension Liability	6,302
(5,691)	Contributions to/(from) Provisions	827
25,055	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	49,862
2,182	Movement in Investment Property Values	(12,165)
88,400		**262,307**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(48,114)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(46,799)
0	Proceeds from the sale of short and long term investments	0
(11,558)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(18,515)
(80)	Repayment of loans - transfer to the Capital Receipts Reserve upon receipt of cash	(222)
(111)	Allowable deduction arising from disposal	(41)
(59,863)		**(65,577)**
(68,616)	**Net Cash Flows from Operating Activities**	**9,628**

b) Operating Activities – Interest

2022/23 £000		2023/24 £000
	Operating activities within the cashflow statement include the following cash flows relating to interest	
(2,854)	Interest Received	(32)
(12,862)	Interest Paid	(15,277)

c) Cash Flows from Investing Activities

2022/23		2023/24
£000		£000
	Cash Flows from Investing Activities	
(85,270)	Property, Plant and Equipment Purchased	(77,949)
(232,980)	Purchase of short term investments	(206,510)
11,669	Proceeds from the sale of property plant and equipment, investment property and intangible assets	18,556
246,330	Proceeds from short-term and long-term investments	217,570
37,127	Other Receipts from Investing Activities - Capital Grants & Contributions Received	41,235
(23,124)	**Total Cash Flows from Investing Activities**	**(7,098)**

d) Cash Flows from Financing Activities

2022/23		2023/24
£000		£000
	Cash Flows from Financing Activities	
55,000	Cash receipts of short and long term borrowing	30,000
11,330	Billing Authorities - Council Tax and NNDR adjustments	(15,131)
(7,464)	Repayment of Short-Term and Long-Term Borrowing	(20,963)
(3,144)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,294)
55,722	**Total Cash Flows from Financing Activities**	**(9,388)**

e) Make-up of Cash and Cash Equivalents

2022/23		2023/24
£000		£000
	Makeup of Cash and Cash Equivalents	
144	Cash and Bank Balances	139
15,490	Cash Investments - regarded as cash equivalents	7,830
(3,804)	Bank Overdraft	(2,997)
11,830		**4,972**

f) Changes in liabilities

	1 April 2023	Cash Flows	Non-Cash Movements	31 March 2024
	£000	£000	£000	£000
Long-term borrowing	278,597	10,000	(10,600)	277,997
Short-term borrowing	25,774	(600)	11,656	36,830
Other deferred liabilities	12,734	(363)		12,371
Finance leases and PFI contracts	44,375	(3,294)		41,081
Total	**361,480**	**5,743**	**1,056**	**368,279**

24. Agency Services

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 collection of council tax and business rates income is in substance an agency arrangement:

Cash collected by Southampton City Council from council tax payers belongs proportionately to Southampton City Council and the major preceptors the Police & Crime Commissioner for Hampshire and the Isle of Wight and Hampshire and Isle of Wight Fire & Rescue Authority. There will therefore be a debtor/creditor position between Southampton City Council and each major preceptor to be recognised, since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council tax payers.

Cash collected from business rates payers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (49%), Government (50%) and Hampshire and Isle of Wight Fire & Rescue Authority (1%) (2022/23 Southampton City Council 49%, Government 50% and Hampshire and Isle of Wight Fire & Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and Government and H&IOWFRA to be recognised since the cash paid in year will not be its share of the cash collected from business rates payers.

The Council also acts as agent under the Business Improvement District (BID) scheme.

In 2022/23 the Council acted as an agent in making mandatory energy rebate scheme payments and energy bills support scheme payments to members of the community on behalf of the government. The income and expenditure to which they relate were not included within the Comprehensive Income and Expenditure Statement. Further details of the grant funding received by the Council is provided in Note 37.

25. Members' Allowances

The total of members' allowances paid in was £0.870M (2022/23 was £0.839M) as detailed in the table below.

	2022/23 **£000**	**2023/24** **£000**
Basic Allowances	645	701
Responsibility & Other Allowances	185	165
Expenses	9	4
Total	**839**	**870**

26. Officers' Remuneration

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

a) Senior Officers' Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from (and supplemented by) the overarching requirements of the Accounts and Audit (England) Regulations 2015. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2022/23.

Number of Employees

Band £		2022/23			2023/24	
	Schools	Other	Total	Schools	Other	Total
50,000 - 54,999	80	145	225	99	150	249
55,000 - 59,999	45	82	127	67	120	187
60,000 - 64,999	30	48	78	43	79	122
65,000 - 69,999	18	23	41	30	36	66
70,000 - 74,999	19	12	31	12	17	29
75,000 - 79,999	18	7	25	22	11	33
80,000 - 84,999	6	10	16	9	10	19
85,000 - 89,999	5	4	9	10	6	16
90,000 - 94,999	1	3	4	2	7	9
95,000 - 99,999	2	2	4	1	3	4
100,000 - 104,999	1	1	2	4	1	5
105,000 - 109,999	0	2	2	0	2	2
110,000 - 114,999	0	2	2	1	3	4
115,000 - 119,999	2	0	2	0	1	1
120,000 - 124,999	0	0	0	1	0	1
125,000 - 129,999	1	0	1	0	0	0
130,000 - 134,999	0	1	1	1	1	2
135,000 - 139,999	1	0	1	2	0	2
140,000 - 144,999	0	2	2	0	0	0
145,000 - 149,999	0	0	0	1	2	3
150,000 - 154,999	0	0	0	0	0	0
155,000 - 159,999	0	0	0	0	0	0
160,000 - 164,999	0	2	2	0	1	1
165,000 - 169,999	0	1	1	0	0	0
170,000 - 174,999	0	0	0	0	0	0
175,000 - 179,999	0	0	0	0	0	0
180,000 - 184,999	0	0	0	0	0	0
185,000 - 189,999	0	0	0	0	0	0
190,000 - 194,999	0	0	0	0	0	0
195,000 - 199,999	0	0	0	0	0	0
200,000 +	0	0	0	0	1	1
	229	**347**	**576**	**305**	**451**	**756**

2023/24

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	**Total Remuneration excluding pension contributions 2023/24**	Pensions contributions (see Note 4)	**Total Remuneration including pension contributions 2023/24**
	£	£	£	£	£	£	£
Chief Executive - Andrew Travers from 29/01/2024	34,901				34,901		34,901
Chief Executive - Mike Harris until 31/03/2024	180,369		75,000		255,369	30,302	285,671
Executive Director - Community Wellbeing (DASS) - Claire Edgar (Note 2)	147,414				147,414	24,766	172,180
Executive Director - Wellbeing (Children & Learning) - Robert Henderson	165,000	37			165,037	25,774	190,811
Executive Director - Corporate Services - Mel Creighton	147,097				147,097	24,712	171,809
Director - Strategy & Performance - Munira Holloway	90,962				90,962	15,282	106,244
Director - Legal & Governance - Richard Ivory	131,954	251			132,205	3,218	135,423
	897,697	**288**	**75,000**	**-**	**972,985**	**124,054**	**1,097,039**

Note 1

Between 01/04/2023 and 28/03/2024 the Executive Director - Place role was undertaken by Adam Wilkinson via an external company. Payment for this period was £234,457 excluding VAT.

Note 2

Between 11/03/2024 and 31/03/2024 the Executive Director - Resident Services role was undertaken by Debbie Ward via an external company. Payment for this period was £9,860 excluding VAT. Previously services within the scope of this new role were undertaken by Claire Edgar and Adam Wilkinson.

Note 3

There were no bonuses paid.

Note 4

In 2023/24 the employer's contribution rate for the Local Government Pension Scheme was 16.8%.

2022/23

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	**Total Remuneration excluding pension contributions 2022/23**	Pensions contributions (see Note 4)	**Total Remuneration including pension contributions 2022/23**
	£	£	£	£	£	£	£
Chief Executive - Mike Harris	167,403	23			167,426	30,467	197,893
Executive Director - Communities, Culture & Homes - Mary D'Arcy until 11/01/2023	118,194	92	41,995		160,281	21,337	181,618
Executive Director - Wellbeing & Housing - Claire Edgar (Note 2) from 01/01/2023	34,589				34,589	6,295	40,884
Executive Director - Wellbeing (Children & Learning) - Robert Henderson	161,725	120			161,845	29,434	191,279
Executive Director - Finance & Commercialisation - John Harrison until 26/02/2023	137,500		7,268		144,768		144,768
Executive Director - Corporate Services - Mel Creighton from 27/02/2023	12,690				12,690	2,309	14,999
Director - Strategy & Performance - Munira Holloway from 01/11/2022	35,773				35,773	6,511	42,284
Director - Governance, Legal & HR - Richard Ivory	133,531	549			134,080		134,080
	801,405	**784**	**49,263**	**-**	**851,452**	**96,353**	**947,805**

Note 1
Between 01/04/2022 and 31/03/2023 the Executive Director - Place role was undertaken by Adam Wilkinson via an external company. Payment for this period was £242,146 excluding VAT.

Note 2
Between 01/04/2022 and 06/07/2022 the Executive Director - Wellbeing (Health & Adults DASS) role was undertaken by Guy van Dichele via an external company. Payment for this period was £58,637 excluding VAT.

Note 3
There were no bonuses paid.

Note 4
In 2022/23 the employer's contribution rate for the Local Government Pension Scheme was 18.2%.

b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £4.2M (2022/23 £0.8M) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

Exit Package Cost Band (including special payments)	Number of compulsory Redundancies		Number of Other Departures agreed		Total Number of packages by Cost Band		Total Cost of Exit Packages in each Band	
	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24	2022/23 £000	2023/24 £000
£0-£20,000	4	19	19	58	23	77	200	637
£20,001-£40,000	3	4	7	23	10	27	279	764
£40,001-£60,000	0	1	3	16	3	17	142	821
£60,001-£80,000	1	0	1	6	2	6	136	410
£80,001-£100,000	0	0	0	8	0	8	0	686
£100,001-£150,000	0	0	0	4	0	4	0	478
£150,000+	0	1	0	1	0	2	0	367
Total	**8**	**25**	**30**	**116**	**38**	**141**	**757**	**4,163**

27. External Audit Costs

The Council's appointed auditors are Ernst & Young. The Council incurred the following fees relating to external audit and inspection. Audit scale fees have increased under the new auditor appointment contract for the period 2023/24 to 2027/28.

2022/23 £000		2023/24 £000
185	Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	434
4	Fees payable to Fiander Tovell in respect of grant claims and returns for the year	18
10	Fees payable to KPMG in respect of grant claims and returns for the year	30
199		**482**

28. Dedicated Schools Grants

The Council's expenditure on schools is grant funded, provided by the Department for Education (DfE) and is mainly 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 under spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for the year are as follows:

Details of the Deployment of DSG Receivable for 2023/24 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2023/24 before academy and high needs recoupment			245,152
Academy and high needs figure recouped for 2023/24			(84,373)
Total DSG after academy and high needs recoupment for 2023/24			**160,779**
Plus: Brought forward from 2022/23			992
Agreed initial budgeted distribution in 2023/24	**23,472**	**138,299**	**161,771**
In year adjustments	0	606	606
Final Budgeted Distribution for 2023/24	**23,472**	**138,905**	**162,377**
Less: Actual central expenditure	(21,599)		(21,599)
Less: Actual ISB deployed to schools		(136,791)	(136,791)
In-year Carry Forward to 2024/25	**1,873**	**2,114**	**3,987**
Plus Carry-forward to 2024/25 agreed in advance			0
Carry Forward to 2024/25			3,987
DSG unusable reserve at the end of 2022/23			(11,092)
Addition to DSG unusable reserve in 2023/24			0
DSG unusable reserve at the end of 2023/24			**(11,092)**
Net DSG position at the end of 2023/24			**(7,105)**

The overspend carried forward mainly relates to the cost of additional out of city placements and higher numbers and more complex level of pupils with Special Educational Needs (SEN).

29. Related Parties

The Accounting Code of Practice requires the Council to disclose material transactions and outstanding balances with related parties. Reduced disclosure requirements apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities. For the City Council a “Related Party” is considered to be:

- Central Government and other local authorities,
- Any joint arrangement with another public body,
- Any subsidiary, associated company or joint venture,
- Elected Members,
- Senior Officers,
- The Council’s pension fund
- Entities that are controlled or jointly controlled by elected members or senior officers, or over which they have significant influence.

During the year major transactions with related parties arose with: the Hampshire Pension Fund and the Teachers’ Pension Agency as disclosed in Note 33 Pension Schemes accounted for as a Defined Contribution Schemes and Note 34 Defined Benefit Pension Schemes; Hampshire and Isle of Wight Integrated Care Board as disclosed in Note 39 Pooled Budgets; 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, shown in Note

37 Capital and Revenue Grants & Contributions, Receipts in Advance. The payment of precepts to the Hampshire and Isle of Wight Police & Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority are not considered to be related party transactions, as the Collection Fund operates on an agency basis. Details of companies which the City Council has an interest are provided in Note 36.

Southampton Forward is a culture trust established to take forward the legacy from the 2025 City of Culture bidding process. With the support of a Place Partnership grant from Arts Council England and the commitment from city-wide partners, the trust aims to help foster social, cultural and economic benefits for the city and showcase Southampton as a great place to live, work, visit and play. During 2023/24 the then Leader of the Council was a trustee of the trust and remained in the role as a Councillor following their resignation as Leader in December 2023. The former Chief Executive was also a trustee during the year until their resignation in January 2024. The Council provided £0.345M of grant funding to the trust in 2023/24 (£0.464M support in grant funding and benefits in kind in 2022/23).

For elected members and senior 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 senior officers were requested to disclose any related party transactions which are as follows:

- One former councillor is a trustee of the National Spitfire Project which received grant payments from the Council of £0.025M in 2023/24.
- One councillor and a member of the close family of another councillor are trustees of Monty's Community Hub which received service payments of £0.017M in 2023/24.
- Two councillors have an interest in Music in the City which received grant payments of £0.006M from the Council in 2023/24.
- One councillor is a trustee of Southampton Advice and Representation Centre which received service payments of £0.106M from the Council in 2023/24.
- One councillor is a member of Oasis Hub Community Council which received grant payments of £0.013M from the Council in 2023/24.
- Once councillor is a trustee of City Eye Limited which received grant and other payments of £0.031M from the Council in 2023/24.

30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

CAPITAL EXPENDITURE AND FINANCING

	2022/23 £000	2023/24 £000
Opening Capital Financing Requirement	**507,877**	**517,439**
Capital Investment		
Intangible assets	3,328	1,895
Property Plant & Equipment	79,232	76,509
Revenue Expenditure Funded from Capital under Statute	15,067	18,953
Heritage Assets	646	963
Investment Properties	544	177
Sources of Finance		
Capital Receipts	(6,583)	(4,204)
Government grants & other contributions	(48,999)	(46,017)
Use of Major Repairs Reserve	(20,763)	(17,967)
Direct Revenue Financing	(1,790)	(8,001)
MRP	(11,120)	(12,345)
Closing Capital Financing Requirement	**517,439**	**527,402**
Increase in underlying need to borrow (unsupported by Government financial assistance)	20,682	22,308
MRP	(11,120)	(12,345)
Increase / (Decrease) in Capital Financing Requirement	**9,562**	**9,963**

31. Leases

a) Council as a Lessor

Operating Leases

The Council leases property and equipment under operating leases for the following purposes:

- The provision of community services, such as tourism services and community centres;
- Economic development purposes to provide suitable affordable accommodation for local businesses;
- Investment purposes.

The future minimum lease payments receivable under non-cancellable leases in future years and contingent rents for the year are:

	31 March 2023 £000	31 March 2024 £000
Not later than one year	7,048	32,709
Later than one year and not later than five years	22,109	19,450
Later than five years	526,074	510,262
	555,231	**562,421**
Contingent Rents	**454**	**424**

The amounts in the above table include “market value” property ground rents which have all been treated as operating leases even where the period of the lease exceeds 150 years.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into.

32. PFI and Similar Contracts

The Council is currently involved with five PFI and Similar Contracts, three of which require to be accounted for on Balance Sheet in accordance with our Accounting Policy (PFI schools, Hampshire Waste Management Contract, PFI Street Lighting) and two which are not (Northlands & Oak Lodge Nursing Homes run by BUPA Care Homes Limited).

a) On Balance Sheet

PFI Schools

A PFI project was 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 29 October 2001 and will terminate on 31 August 2031. The estimated capital value of these schemes is £37M.

The consortium provides building related services such as cleaning, care-taking and repairs, but teaching and curriculum related staff continue to be employed 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.

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).

The three schools have now transferred to Trust status and once transfer agreements have been completed the fixed assets will be derecognised from the Balance Sheet.

Hampshire Waste Contract

At the end of the 1980’s it became evident that Hampshire was facing a waste disposal crisis. Landfill space was rapidly running out, incinerators built in the 1970’s were not going to meet EU emission regulations and waste levels were continuing to rise.

In 1995 the Hampshire Waste Strategy was adopted which led to Project Integra, which is a unique partnership between the Council, Hampshire County Council, Portsmouth City Council, the 11 District Councils, and Veolia Environmental Services.

In 1996 the Council (11.48% share) entered into a tri-partite arrangement with Hampshire County Council (77%) and Portsmouth City Council (11.52%), in respect of the provision of Waste Management Services from Veolia Environment Services. Although this arrangement was entered into pre PFI it requires to be accounted for as an on Balance Sheet PFI type arrangement under the Code.

Broadly, the services contract involved the building and running of three Energy Recovery Facilities and two Material Recycling Facilities and the provision of Waste Management Services within Hampshire for a 25 year period. Southampton and Portsmouth City Councils have worked with Hampshire County Council, as the lead authority, to calculate the fair value of the Assets built for the servicing of the Waste Management Contract. The Council has accounted for its share of the Assets (11.48%) on the basis of its share of the Annual Unitary Charge.

PFI Street Lighting

From 1 April 2010, the Council entered into a 25 year PFI contract with Tay Valley Lighting to provide the city’s street lighting services. Over the initial five years of the contract, the contractor replaced all life expired apparatus with new energy-efficient apparatus. This ‘core investment programme’ has a capital value of £26M and includes the replacement of 17,000 of the city’s 28,000 streetlights and associated apparatus. The contractor is also responsible for the operation and maintenance, to agreed performance standards, of all apparatus (new and existing) for the life of the contract. The Council pays a single fee to the contractor for these services (capital investment, operation and maintenance). Payment of this ‘unitary charge’ is funded partly through a PFI annuity grant received from Central Government and partly through existing Council budgets for street lighting. In 2022/23 the Council received a £1.6M rebate on the unitary charge following a refinancing of the scheme by the PFI operator, which was accounted for as a contingent rent.

b) Off Balance Sheet

BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

The purpose of these Public Private Partnership (PPP) projects 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 homes have been built to BUPA for nil consideration for the duration of 50 years.

BUPA manages both the property and service provision. The Council is not involved in direct service management or providing any staff. The Council has block contracts for 25 years (Northlands July 2005 – July 2030 and Oak Lodge Feb 2011 – Feb 2035), to purchase beds, (Northlands 72 of 101, and Oak Lodge 40 of 71) at the Nursing Homes annually.

Payment is made monthly to BUPA, based on the ‘Unitary Charge’, which is the price per bed per week.

A review of these arrangements indicates that they do not require to be accounted for as On Balance Sheet PFI schemes as the Council does not control the residual interest in the Assets (Nursing Homes) at the end of the 25 year service concession period.

The PFI and service concession arrangements that are included within Fixed Asset Balances are as follows.

	PFI - Schools	Hampshire Waste Contract	PFI - Street Lighting	Total
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2023	53,262	12,309	25,819	91,390
Adjustment to Opening Balance				0
	53,262	12,309	25,819	91,390
Additions	30			30
Disposals				0
Revaluations	(901)	3,252		2,351
Impairments				0
At 31 March 2024	**52,391**	**15,561**	**25,819**	**93,771**
Depreciation & Impairment				
At 1 April 2023	0	(4,434)	(8,049)	(12,483)
Adjustment to Opening Balance				0
	0	(4,434)	(8,049)	(12,483)
Depreciation Charge for the Year	(2,750)	(886)	(996)	(4,632)
Disposals				0
Revaluations	831	5,320		6,151
Impairments				0
At 31 March 2024	**(1,919)**	**0**	**(9,045)**	**(10,964)**
Balance Sheet amount at 31 March 2024	**50,472**	**15,561**	**16,774**	**82,807**
Balance Sheet amount at 31 March 2023	**53,262**	**7,875**	**17,770**	**78,907**

The Finance Creditor associated with the above schemes within the Balance Sheet is as follows:

	PFI - Schools	Hampshire Waste Contract	PFI - Street Lighting	Total
	£000	£000	£000	£000
Balance 1 April 2023	23,492	1,670	19,213	44,375
New Schemes in 2023/24	0	0	0	0
Repayments	(1,727)	(875)	(692)	(3,294)
Balance 31 March 2024	**21,765**	**795**	**18,521**	**41,081**
Due within 1 Year				
Balance 1 April 2023	1,727	875	692	3,294
Repayments	(1,727)	(875)	(692)	(3,294)
Due within 1 Year	2,428	757	791	3,976
Balance 31 March 2024	**2,428**	**757**	**791**	**3,976**
Long Term Creditor Balance 31 March 2024	**19,337**	**38**	**17,730**	**37,105**

The Future Obligations in respect of the three on Balance Sheet PFI / service concession arrangements are as follows:

	PFI - Schools				Hampshire Waste			PFI - Street Lighting			Total
	Liability	Interest	Service Charges	Contingent Rents	Liability	Interest	Service Charges	Liability	Interest	Service Charges	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	2,428	1,850	1,729	1,621	757	143	7,625	790	2,196	1,414	**20,553**
within 2 to 5 years	10,483	5,342	9,584	6,721	38	10	2,120	4,539	7,642	6,048	**52,527**
within 6 to 10 years	8,854	1,350	5,160	5,764				10,256	5,455	8,518	**45,357**
within 11 to 15 years								2,936	266	1,843	**5,045**
Balance 31 March 2024	**21,765**	**8,542**	**16,473**	**14,106**	**795**	**153**	**9,745**	**18,521**	**15,559**	**17,823**	**123,482**

The future obligations in respect of the two Off Balance Sheet Public Private Partnerships (PPP) arrangements are as follows:

	BUPA Care Homes		
	Northlands	Oak Lodge	Total
	£000	£000	£000
within 1 year	3,966	2,635	6,601
within 2 to 5 years	14,555	10,541	25,096
within 6 to 10 years		13,176	13,176
within 11 to 15 years		2,240	2,240
Balance 31 March 2024	**18,521**	**28,592**	**47,113**

Payments for the year in respect of PFI and service concession arrangements were as follows:

	Liability	Interest	Service Charges	Contingent Rents	Total
	£000	£000	£000	£000	£000
PFI Schools	1,727	1,996	3,033	1,023	7,779
Hampshire Waste	875	301	7,206		8,382
PFI Street Lighting	692	2,282	1,378		4,352
BUPA Care Homes					
Northlands			3,379		3,379
Oak Lodge			2,272		2,272
Totals	**3,294**	**4,579**	**17,268**	**1,023**	**26,164**

33. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. However, the scheme is unfunded and it is not possible to identify the Council's share of the underlying liabilities. The scheme is therefore accounted for as a defined contribution scheme and the Department for Education (DfE) uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 12,300 participating employers and consequently the authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is not able to identify its proportion of the total contributions into the Teacher's Pension Scheme with sufficient reliability for accounting purposes.

In 2023/24 the Council paid £12.1M to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay (2022/23 £11.8M and 23.7%). The contributions due to be paid in the next financial year are estimated to be £15.1M.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 34.

34. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

As part of the terms and conditions of the employment of its Officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS) which is administered locally by Hampshire County Council - this is a funded defined benefit pension scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets.

The Council also makes arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The Hampshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Hampshire County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Director of Corporate Operations & Deputy Chief Executive and JPM Investment Fund Managers.

The objective of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2025.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirement to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

b) Transactions Relating to Post-employment Benefits

In 2023/24 the Council paid an employer's contribution of £29.0M (2022/23 £31.4M) into Hampshire County Council's Pension Fund. The employer's rate for 2023/24 was 16.8% of employees' pay (2022/23 18.2%).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2025 is £25.7M. The weighted average duration of the defined benefit obligation for the scheme members is 17 years.

The Council 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 post-employment / retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement (MiRS). The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the MiRS during the year.

	Local Government Pension Scheme & Discretionary Benefits	
	2022/23	2023/24
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service cost comprising:		
Current Service Cost	62,330	28,809
Past Service Cost	147	2,860
(Gain)/loss from settlements	0	0
Financing and Investment Income and Expenditure		
Expenditure:		
Net interest expense	11,061	3,627
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**73,538**	**35,296**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	97,845	(46,744)
Actuarial gains and losses arising on changes in demographic assumptions	83	(23,109)
Actuarial gains and losses arising on changes in financial assumptions	(581,539)	(21,106)
Other experience and actuarial adjustments	115,734	20,258
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(367,877)	(70,701)
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(73,538)	(35,296)
Actual amount charged against the General Fund Balance for pensions in the year		
Employers Contributions payable to scheme	29,204	26,779
Retirement benefits payable to pensioners	2,148	2,215

c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2024 are shown in the following table. The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £33.7M (2022/23 £98.1M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension Scheme & Discretionary Benefits	
	2022/23	2023/24
	£000	£000
Present value of the defined benefit obligation:		
LGPS funded benefits	1,149,503	1,181,628
LGPS unfunded benefits	11,198	10,394
Teachers' unfunded pensions	14,922	14,850
Total present value of the defined benefit obligation	1,175,623	1,206,872
Fair value of plan assets	(1,077,569)	(1,173,217)
Sub-total	98,054	33,655
Other movements in the liability (asset)	0	0
Net liability arising from defined benefit obligation	**98,054**	**33,655**

d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2022. This has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2024.

Movements in liabilities and assets for the year are shown in the following tables:

	Local Government Pension Scheme & Discretionary Benefits	
	2022/23 £000	2023/24 £000
Opending fair value of scheme assets	1,141,200	1,077,569
Interest income	30,823	50,606
Remeasurement gain/(loss)	(97,845)	46,744
LGPS funded benefits	29,204	26,779
Discretionary benefits	2,148	2,215
Contributions from employees into the scheme	9,666	9,935
Benefits paid:		
LGPS funded benefits	(35,479)	(38,416)
Discretionary benefits	(2,148)	(2,215)
Closing fair value of scheme assets	**1,077,569**	**1,173,217**

	Local Government Pension Scheme & Discretionary Benefits	
	2022/23 £000	2023/24 £000
Opening balance at 1 April	1,564,945	1,175,623
Current service cost	62,330	28,809
Interest cost	41,884	54,233
Contributions from scheme participants	9,666	9,935
Remeasurement (gains) and losses:		
Actuarial gains/losses arising from changes in demographic assumptions	83	(23,109)
Actuarial gains/losses arising from changes in financial assumptions	(581,539)	(21,106)
Other	115,734	20,258
Past service cost	147	2,860
Benefits paid:		
LGPS funded benefits	(35,479)	(38,416)
Discretionary benefits	(2,148)	(2,215)
Closing balance at 31 March	**1,175,623**	**1,206,872**

e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2022. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS19 purposes were:

	Local Government Pension Scheme & Discretionary Benefits 2022/23	 2023/24
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	23.3	22.1
Women	25.7	24.7
Longevity at 65 for future pensionsers:		
Men	23.8	22.6
Women	26.7	25.7
CPI inflation	2.7%	2.8%
Rate of increase in salaries	3.7%	3.8%
Rate of increase in pensions	2.7%	2.8%
Rate for discounting scheme liabilities	4.7%	4.9%

f) Pension Scheme Assets

The approximate split of assets for the Fund as a whole (based on data supplied by Hampshire County Council, the Fund administering authority) is shown in the table below.

	2022/23 % Quoted	2022/23 % Unquoted	2022/23 % Total	2023/24 % Quoted	2023/24 % Unquoted	2023/24 % Total
Equities	42.00	15.60	57.60	38.00	8.00	46.00
Property	1.40	5.40	6.80	-	7.00	7.00
Government Bonds	16.50	-	16.50	15.00	-	15.00
Corpoarte Bonds	-	-	-	5.00	5.00	10.00
Multi Asset Credit	-	-	-	-	-	-
Cash	1.10	-	1.10	1.00	-	1.00
Other	-	18.00	18.00	5.00	16.00	21.00
Total assets	**61.00**	**39.00**	**100.00**	**64.00**	**36.00**	**100.00**

g) Sensitivity analysis

The effect of an increase or decrease in the assumptions used to calculate the net pension liability is set out below.

	Impact on the Defined Benefit Obligation in the Scheme Approximate % increase to Employer Liability %	 Approximate monetary amount £000
0.1% decrease in Real Discount Rate	2.0%	21,152
0.1% increase in Salary Increase Rate	0.0%	488
0.1% increase in Pension Increase Rate (CPI)	2.0%	21,067
1 year increase in member life expectancy	4.0%	48,275

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 Director of Corporate Operations & Deputy Chief Executive, The Castle, Winchester, Hampshire, SO23 8UB.

35. Contingent Liabilities/ Assets

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

a) Deprivation of Liberty Safeguards

The Mental Capacity Act 2005 provides a statutory framework for acting and making decisions on behalf of people who lack the capacity to make those decisions for themselves. These are known as Deprivation of Liberty Safeguards (DoLS). The Council may face compensation claims if DoLS applications are not properly authorised. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

b) Equal Pay Claims

The Council has received a small number of equal pay claims for which a settlement has been reached. The Council recognises the potential for further equal pay claims to be forthcoming, some of which may lead to employees taking employment tribunal action. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

c) Municipal Mutual Insurance – Scheme of Arrangement

Prior to 1992 the Council was insured by Municipal Mutual Insurance (MMI). MMI ceased accepting new business or to renew general insurance business in September 1992 following which a Scheme of Arrangement (SoA), under Section 425 of the Companies Act 1985, was enacted. The SoA, formally triggered by the Directors of MMI in November 2012, was established as a better alternative to an insolvent liquidation, in the event that MMI could not achieve a solvent run-off. From that date control of MMI passed to the scheme administrator, Ernst & Young LLP, who became responsible for the management of the company's business affairs and assets.

An initial levy of 15% of previously paid claims, less the first £0.050M, was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. To date total sum of £0.347M has been paid to MMI in respect of the levy payments made by Southampton City Council. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

An earmarked Insurance reserve, with a balance of £0.27M (2022/23 £0.13M), is currently available to mitigate the financial pressure created by the MMI levy and any other uninsured losses, which might occur in the future. This figure, which is intended to be both prudent and realistic, is subject to periodic review.

As at 31 March 2024, the Council's outstanding potential liability under the SoA stood at £1.390M (2022/23 £1.390M), less the £0.347M payment already made under the scheme. There was £0.069M (2022/23 £0.084M) in outstanding claim reserves.

36. Interest in Companies

The Council reviews annually any interests in companies and other entities for any financial relationships which under the Code's classification would require the Council to produce Group Accounts. In 2023/24 there were no material transactions that required the production of group accounts. The council previously had a limited liability partnership with PSP Facilitating Limited. A decision to dissolve the partnership was taken in December 2023.

37. Capital and Revenue Grants & Contributions, Receipts in Advance

a) Capital Grants and Contributions with outstanding conditions are credited to Capital Grants and Contributions Receipts in Advance in accordance with the requirements of the Code.

2022/23		2023/24
£000		**£000**
(49,856)	Balance Brought Forward	(38,792)
(9,857)	Amounts Received in Year	(24,786)
20,921	Amounts Applied to Finance Capital in year	30,654
(38,792)	**Balance Carried forward**	**(32,924)**

b) Capital Grants and Contributions have been credited to the Comprehensive Income and Expenditure Statement as follows:

2022/23		2023/24	
£000		£000	£000
	Grants		
	Department for Education		
(7,752)	Basic Need Grant	0	
(3,230)	School Condition Allocation	(2,818)	
(482)	Schools Devolved Formula Grant	(1,798)	
(7,602)	High Needs Provision Capital Allocation	(4,424)	
(37)	Other	(441)	
(19,103)			(9,481)
(2,506)	Department for Levelling Up, Housing and Communities		(4,384)
(9)	Department for Business, Energy & Industrial Strategy		(391)
(21,532)	Department for Transport		(26,555)
(100)	Homes & Communities Agency		(42)
(58)	Environment Agency		(70)
(74)	British Library		(27)
(119)	Sports England		0
0	Arts Council		(112)
(246)	Other		(93)
(43,747)			**(41,155)**
(4,367)	**Contributions**		**(5,645)**
(48,114)	**Total**		**(46,800)**
(33,358)	**Credited to Capital Grants and Contributions CIES**		**(29,307)**
(14,756)	**Credited to Cost of Services**		**(17,493)**
(48,114)	**Total**		**(46,800)**

c) The following table shows revenue government grants that have been credited to the Comprehensive Income and Expenditure Statement (CIES) and grants received that have been excluded from the CIES:

2022/23 £000		2023/24 £000
	General Government Grants	
(11,367)	Revenue Support Grant	(12,880)
(11,526)	Social Care Grant	
(11,150)	Section 31 Business Rates Grants	(16,241)
(4,628)	Business Rates Retention Tariff/Top-Up	(5,808)
(3,816)	Services Grant	(2,239)
(1,258)	Housing Benefit and Council Tax Admin Grant	
(3,565)	Other Grants less than £1M	(2,166)
(47,310)		(39,334)
	COVID-19	
(4,668)	Section 31 Business Rates Grants	186
46	Other Grants less than £1M	72
(4,622)		258
(51,932)		**(39,076)**
	Credited to Services	
(149,281)	Dedicated Schools Grant (DSG)	(161,385)
(59,905)	Housing Benefit Grant	(61,733)
(17,950)	Public Health Grant	(18,535)
	Social Care Grant	(18,468)
(10,705)	Improved Better Care Fund	(10,705)
(9,836)	Pupil Premium (including PE & Sports Premium)	(10,584)
(5,859)	Private Finance Initiative (PFI)	(5,859)
(3,880)	Household Support Fund	(4,405)
	Market Sustainability and Improvement Fund	(4,285)
(2,952)	Homelessness and Rough Sleeping Grants	(3,606)
	Mainstream Schools Additional Grant	(3,542)
(1,856)	Unaccompanied Asylum Seeking Children	(2,690)
	Adult Social Care Discharge Fund	(1,501)
	Family Hubs Grant	(1,401)
	Teachers Pay Additional Grant	(1,357)
(1,150)	Universal Infant Free School Meals	(1,274)
(1,258)	School Holiday Activities and Food Programme	(1,244)
	Early Years Supplementary Grant	(1,206)
	Supplementary Substance Misuse Treatment and Recovery Grant	(1,067)
(1,033)	Supporting Families Grant	(1,066)
(1,397)	Homes for Ukraine Grant	
(1,196)	Schools Devolved Formula Capital Grant	
(2,847)	Schools Supplementary Grant	
(14,959)	Other Grants less than £1M	(16,084)
(286,064)		(331,997)
	COVID-19	
(1,714)	Pupil Premium Catch Up and Recovery Funding	(1,638)
(805)	Other Grants less than £1M	31
(2,519)		(1,607)
(288,583)		**(333,604)**
	Not included in the Comprehensive Income and Expenditure Statement	
(14,264)	Council Tax Energy Rebate Scheme - Non-Discretionary	45
(4)	Other Grants less than £1M	(46)
(14,268)		(1)
	COVID-19	
41	Other Grants less than £1M	0
41		0
(14,227)		**(1)**

In 2022/23 Social Care Grant was un-ringfenced and therefore reported within general government grants. From 2023/24 the grant is ringfenced to children and adults' social care and has been credited to services.

The £14.2M of grants for 2022/23 not included in the Comprehensive Income and Expenditure Statement are where the Council acted as an agent of central government in disbursing funding to individuals and businesses.

38. Deferred Liabilities

This balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1 April 1997 and the Magistrates Courts, which is being repaid over 50 years at £0.4M per annum.

31 March 2023 £000		**31 March 2024 £000**
13,098	Balance Brought Forward	12,734
(364)	Principal written down	(363)
12,734		**12,371**

39. Pooled Budgets

Pooled budget arrangements are made in accordance with Section 75 (S75) of the National Health Services Act 2006 which allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities (LA) and other agencies in order to improve and co-ordinate services. These arrangements are accounted for as joint operations.

Better Care Southampton

Southampton City Council (SCC) has entered into pooled budget arrangements with NHS Hampshire and Isle of Wight Integrated Care Board with the aim of focussing services and activities for client groups, allowing the organisations to act in a more cohesive way. The governance and operation of the partnership arrangements are overseen by the Commissioning Partnership Board.

Together the City Council and ICB have identified service areas where closer integrated working and pooled budgets would lead to benefits for the population. These are:

Locality Based Hospital Unit (LBHU) pooled budget: hosted by the City Council; to commission residential, domiciliary care and continuing care services for former residents of the LBHU in Southampton.

Reablement & Rehabilitation (R&R) pooled budget: hosted by the ICB; services commissioned under this scheme include ICB contracts with NHS Providers, Independent Sector Providers and local authority in-house provision (some of which were previously S256 agreements).

The table below shows pooled funds with income/expenditure in excess of £2M.

2022/23					2023/24			
LBHU		R&R			LBHU		R&R	
£000	%	£000	%	**Better Care Fund**	£000	%	£000	%
				Funding - Contributions / Grants				
0		0		Brought Forward	0		0	
(1,176)	49%	(6,308)	34%	Southampton City Council	(1,176)	49%	(6,636)	35%
(1,224)	51%	(12,284)	66%	Integrated Care Board	(1,224)	51%	(12,398)	65%
(2,400)		**(18,592)**			**(2,400)**		**(19,034)**	
2,400		18,592		**Expenditure**	2,400		19,034	
0		**0**		**Carried Forward**	**0**		**0**	

40. Trust and Other Funds

The Council acts as trustee for several legacies left by inhabitants of the City and also as residual trustee for the Wessex Slaughterhouse Board. The funds are not owned by the Council and have not been included in the Council's Balance Sheet. The funds are used in accordance with the aims of the particular charity or trust.

	Income £000	Expenditure £000	Assets £000	Purpose
Aldridge Bequest	(13)	0	(268)	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	(4)	0	(171)	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	0	(44)	Works of art
LC Smith Bequest	(2)	0	(38)	Merchants Navy's Memorial maintenance help in Holyrood Church
Jean Rattray	(63)	0	(63)	Capital Mental Health Projects
Minor Trust Funds consisting of:				
Ida Bany Bequest	(1)	0	(13)	Books about America
De Gee	0	0	(1)	Children of the former Hollybrook Children's Home annual treat
Dora Linton	0	0	(3)	Merchants Navy's Memorial maintenance help in Holyrood Church
George Knee Fund	0	0	(5)	Bitterne Park School special annual prizes
Southampton Archives Bequest	0	0	(5)	Preserve historical records
Trust Funds Total	**(83)**	**0**	**(611)**	
Wessex Slaughterhouse Board	(5)	7	(93)	Pensions to former employees
Total	**(88)**	**7**	**(704)**	

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA. Although this account is also included within the Core Financial Statements 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 and between the HRA and General Fund.

Transactions relating to the HRA have been separated into two statements:

- Housing Revenue Account Income and Expenditure Statement
- Statement of Movement on the Housing Revenue Account

HRA Income and Expenditure Statement

2022/23 £000	Expenditure	Notes	2023/24 £000
23,766	Repairs and maintenance		22,251
29,678	Supervision and management		27,836
8,125	Rents, rates, taxes and other charges		7,615
33,361	Depreciation, impairment and revaluation (gains) of non-current assets		173,359
77	Debt management costs		82
1,366	Movement in the allowance for bad debts	1	1,056
96,373	**Total Expenditure**		**232,199**
	Income		
(70,563)	Dwellings rent		(74,819)
(1,317)	Non-dwelling rents		(1,247)
(10,495)	Charges for services & facilities		(10,776)
(2,077)	Contributions towards expenditure		(2,222)
(84,452)	**Total Income**		**(89,064)**
11,921	**Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement**		**143,135**
518	HRA services' share of Corporate and Democratic Core		518
12,439	**Net Expenditure/(Income) for HRA Services**		**143,653**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(6,477)	(Gain) or loss on the sale of HRA non-current assets		(4,026)
(13)	Capital Receipts not matched by Disposal of Assets		(70)
(42)	Investment Property Revaluation Movements		(2,212)
5,123	Interest payable and similar charges		5,766
(57)	Interest and investment income		(105)
2,053	Net interest on the net defined benefit liability		696
(898)	Capital grants and contributions receivable		(2,894)
12,128	**(Surplus) or Deficit for the Year on HRA Services**		**140,808**

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Statement of Movement on the Housing Revenue Account

2022/23 £000		2023/24 £000	 £000
(2,920)	Opening Balance		**(2,000)**
	Movement in Year		
12,128	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	140,808	
(11,208)	Adjustments between accounting basis and funding basis under statute	(141,398)	
920	Transfer to / (from) reserves		**(590)**
(2,000)	**Closing HRA Balance**		**(2,590)**

Note to the Statement of Movement on the Housing Revenue Account

2022/23 £000		2023/24 £000
	Analysis of adjustments between accounting basis and funding basis under statute	
(33,361)	Depreciation, impairment and revaluation gains or (losses) of non-current assets	(173,359)
0	Voluntary MRP	0
6,490	Gain or (loss) on the sale of HRA non-current assets	4,096
42	Impairment and revaluation of investment properties	2,212
(7,830)	HRA share of contribution to or from the pension reserve	(1,209)
20,763	Transfer to Major Repairs Reserve	17,967
898	Capital grants and contributions applied	2,894
1,790	Capital expenditure funded by the HRA	6,001
(11,208)	**Net Adjustment**	**(141,398)**

1. Council House Rents

At 31 March 2024, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 7.80% (31 March 2023 14.46%). The total arrears were £11.124M (31 March 2023 £10.507M). Rents written off during the year amounted to £0.701M (2022/23 £0.464M). The amount set aside for doubtful debts was £6.649M (31 March 2023 £6.120M).

2. Housing Stock

As at the 31 March 2024, the Council housing stock was made up of the following types of property:

Number of Properties Held

31 March 2023		31 March 2024
4,817	Houses	4,810
11,001	Flats	11,023
16	Bungalows	16
15,834		**15,849**

The Balance Sheet value of HRA assets was as follows:

Balance Sheet Value of HRA Assets

2022/23 £000		2023/24 £000
	Property Plant & Equipment	
753,564	Dwellings	625,785
7,920	Other Operational Property	10,472
16,594	Assets Under Construction	7,154
778,078		**643,411**
	Other Property	
5,940	Investment Property	8,152
1,601	Intangibles	1,260
418	Surplus Assets	416
7,959		**9,828**
786,037		**653,239**

The vacant possession value of Council Dwellings at 1 April 2023 was £2,016M (£2,174M as at 1 April 2022) which is the Council'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 31 March 2024.

3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. There were no impairments in 2022/23 or 2023/24.

2022/23 £000	Depreciation	2023/24 £000
852	Balance at 1 April	839
(20,776)	Depreciation written off in year	(17,582)
20,763	Depreciation during year	17,967
839	**Balance as at 31 March**	**1,224**

4. Capital Expenditure

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

Capital Spending

2022/23		2023/24
£000		**£000**
32,804	Housing Stock	35,306
2,138	Housing Stock Under Construction	1,361
934	Intangible assets	101
35,876	**Total Capital Expenditure**	**36,768**

Capital Expenditure Source of Finance

£000		£000
6,272	Capital Receipts	2,737
0	Grants	2,203
20,763	Transfer from Major Repairs Reserve	17,967
898	Contributions	691
1,790	Direct Revenue Funding	6,001
6,153	Unsupported Borrowing	7,169
35,876	**Total Financing**	**36,768**

5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts for 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.

In 2012/13, under the Government’s ‘Reinvigorating the Right to Buy’ initiative, the rules changed to allow local authorities to retain receipts that exceed a predetermined set level.

Any additional receipts can be used to fund up to 40% (2022/23 40%) of new build affordable housing projects to replace stock on a one for one basis. Receipts are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In addition to these receipts, for 2022/23 and 2023/24, the Treasury share of £1.160M can be retained and used to fund up to 40% of new build affordable housing projects. In 2023/24 the Council received £3.44M (2022/23 £5.41M) from right to buy sales that can be utilised on new build affordable housing projects.

2022/23	Sale of Assets	2023/24
£000		**£000**
11,409	Council Housing	5,671
13	Land, Buildings & Equipment	70
11,422		**5,741**

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

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 non-domestic (business) rates and council tax and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund Balance Sheet is consolidated within the accounts.

Income and Expenditure for the Year Ended 31 March 2024

2022/23			2023/24
£000	**Council Tax**	**Notes**	**£000**
	Income		
(130,517)	Income due from Council Tax Payers		(138,583)
	Transfers (to)/ from the General Fund		
(233)	- Hardship Relief		(718)
0	- Transitional Relief		0
(233)			(718)
(130,750)			**(139,301)**
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
2,470	- Southampton City Council		(261)
341	- Hampshire and IOW Police & Crime Commissioner		(35)
105	- Hampshire and IOW Fire & Rescue Authority		(12)
2,916			(308)
(127,834)	**Total Council Tax Income**		**(139,609)**
	Expenditure		
	Precepts		
108,770	- Southampton City Council Precept		115,772
15,641	- Hampshire and IOW Police & Crime Commissioner Precept		16,862
4,989	- Hampshire and IOW Fire & Rescue Authority Precept		5,393
129,400		2	**138,027**
	Impairment of debts		
2,718	- Write offs		2,957
(625)	- Allowance for impairment		(1,040)
2,093			**1,917**
131,493	**Total Council Tax Expenditure**		**139,944**
3,659	**Council Tax - Deficit / (Surplus) for the Year**	4	**335**
(2,759)	Council Tax - Deficit / (Surplus) Brought Forward	4	900
900	**Council Tax Deficit / (Surplus) Carried Forward**	4	**1,235**
	Business Rates		
	Income		
(89,276)	Income Collectable from Business Ratepayers	3	**(93,435)**
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
(11,893)	- Southampton City Council		1,690
(12,136)	- Central Government - DLUHC		1,724
(243)	- Hampshire and IOW Fire & Rescue Authority		34
(24,272)			**3,448**
(113,548)	**Total Business Rates Income**		**(89,987)**
	Expenditure		
568	- Payment to DLUHC - Transitional Arrangements		(6,121)
45,584	- Payment to DLUHC - Business Rate Retention		48,419
44,672	- SCC Business Rates Retention		47,450
912	- Hampshire and IOW Fire & Rescue Authority Precept		968
0	- Interest on Overpayments		125
298	- Costs of Collection		292
	- Other transfers to the General Fund - Freeport disregard		4
92,034			**91,137**
	Impairment of debts/appeals		
329	- Write offs		2,499
929	- Allowance for impairment		(1,098)
(10,056)	- Appeals provision		2,230
(8,798)			**3,631**
83,236	**Total Business Rates Expenditure**		**94,768**
(30,312)	**Business Rates (Surplus) / Deficit For the Year**	4	**4,781**
17,109	Business Rates - Deficit / (Surplus) Brought Forward	4	**(13,203)**
(13,203)	**Business Rates Deficit / (Surplus) Carried Forward**	4	**(8,422)**
(12,303)	**Total Collection Fund (Surplus) / Deficit**	**4**	**(7,187)**

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

1. Introduction

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and Non-domestic Rates (NDR) and its distribution to local government bodies and the Government.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore is to isolate the income and expenditure relating to Council Tax and NDR. The administration costs associated with the collection processes are charged to the General Fund.

Collection Fund surpluses and deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies, normally in the subsequent financial year. To reduce the financial impact in any one year of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require the 2020/21 in-year deficit as estimated in January 2021 to be spread over 3 years, starting in 2021/22. The final third of this estimated exceptional loss was recovered from precepting bodies in 2023/24. For Southampton, Council Tax precepting bodies are the Police & Crime Commissioner for Hampshire and the Isle of Wight and the Hampshire and Isle of Wight Fire & Rescue Authority.

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. For 2023/24 the Council was part of the standard 50% Business Rates Retention Scheme. The Council share of NDR rates was 49% with the remainder paid to Central Government (50%) and Hampshire and Isle of Wight Fire & Rescue Authority (1%) (the same proportions applied for 2022/23). NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies, normally in the subsequent financial year in their respective proportions. As with Council Tax, the government made regulations to require the 2020/21 in-year deficit estimated in January 2021 (excluding the element relating to additional reliefs relating to the pandemic being funded from S31 Business Rates Grant) to be spread over 3 years, starting in 2021/22. The final third of this estimated exceptional loss was recovered from precepting bodies in 2023/24.

2. Council Tax Base

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council in the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

The Council Tax base for 2023/24 was 68,078 (2022/23 67,153). The tax base for 2023/24 was calculated as follows:

Council Tax Base

	Net Chargeable Dwellings	Relevant Proportion	Band D Equivalents
Band A Disabled	36.7	5/9	20.4
Band A	21,932.1	6/9	14,621.4
Band B	27,849.6	7/9	21,660.8
Band C	19,624.8	8/9	17,444.3
Band D	8,430.5	9/9	8,430.5
Band E	2,773.2	11/9	3,389.5
Band F	1,278.6	13/9	1,846.9
Band G	390.9	15/9	651.5
Band H	6.5	18/9	13.0
	82,322.9		**68,078.3**

Taking the total Band D equivalents of 68,078 (2022/23 67,153) and multiplying this by the standard Council Tax of £2,058.36 (2022/23 £1,956.28) gives a total estimated income from taxpayers of £140.1M (2022/23 £131.4M). 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 was 98.5%, giving a net Council Tax Base of 67,057. Multiplying this by the standard Council Tax of £2,058.36 gives the total precepts on the Collection Fund of £138.0M (66,146 multiplied by £1,956.28 - £129.4M 2022/23).

3. Non-Domestic Rates (NDR)

The Business Rates Retention Scheme was introduced from 1 April 2013 whereby Business Rates collected by billing authorities are shared 50:50 between local and central government. Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities were estimated to receive their baseline funding amount. Tariffs due from authorities, payable to Central Government, are used to finance top-ups to those authorities who were not estimated to achieve their targeted baseline funding. In addition, a ‘safety net’ figure is calculated at 92.5% of the baseline funding amount which ensures that authorities are protected to this level of Business Rate income.

The Council in 2023/24 estimated NDR income of approximately £96.8M (2022/23 £91.2M), £47.4M (2022/23 £44.7M) retained by the Council, £1.0M (2022/23 £0.9M) payable to Hampshire and Isle of Wight Fire & Rescue Authority and £48.4M payable to Central Government (2022/23 £45.6M). The Rateable Value on 31 March 2024 was £271.9M (2022/23 £262.1M) and the Business Rate Multiplier for the year 49.9p (2022/23 49.9p) in the £, giving gross rates before reliefs of £135.7M (2022/23 £130.8M).

4. Collection Fund Balance

The total Collection Fund surplus carried forward for the year is £7.2M (2022/23 £12.3M surplus). An analysis of the balance showing the in-year (surplus)/deficit and cumulative position is provided in the following table:

Analysis of Collection Fund Balance

	In Year			Cumulative		
	Council Tax (Surplus)/ Deficit	Business Rates (Surplus)/ Deficit	Total	Council Tax (Surplus)/ Deficit	Business Rates (Surplus)/ Deficit	Total
	£000	£000	£000	£000	£000	£000
Central Government		2,391	2,391		(4,211)	(4,211)
Southampton City Council	278	2,342	2,620	1,036	(4,127)	(3,091)
Hampshire & IOW FRA	14	48	62	48	(84)	(36)
Hampshire & IOW PCC	43		43	151		151
Balance as at 31 March	**335**	**4,781**	**5,116**	**1,235**	**(8,422)**	**(7,187)**

GLOSSARY

1. Accruals

The concept that income and expenditure is recognised as it is earned or incurred; not as money is received or paid.

2. Amortised Cost

A way of measuring financial instruments that ignores changes in fair value.

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 Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

5. Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which enhances 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 Council intends to hold in perpetuity and that may have restrictions on their disposal. Examples of community assets are parks, open spaces, and allotments.

8. 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.

9. Council Tax

A local tax levied by a local authority on its citizens.

10. Creditor

Money owed by the Council to others for goods or services that have been supplied in the accounting period but not paid for.

11. Current Value

The measurement bases for property, plant and equipment, reflecting the economic environment for the service the item is supporting.

12. Debtor

Money owed to the Council for goods or services we have supplied to others that they have received but have not paid for by the end of the accounting period.

13. 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.

14. Effective Interest Rate (EIR)

The effective interest rate is the true rate of interest earned. It could also be referred to as the market interest rate, the yield to maturity, the discount rate, the internal rate of return, the annual percentage rate (APR), and the targeted or required interest rate.

15. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

16. Financial Assets

A right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

17. 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.

18. Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability, or equity instrument, of another entity.

19. Financial Liability

An obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

20. 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.

21. General Fund

The division of the Council's accounts covering services paid for by the precept on the Collection Fund for council tax and its share of business rates.

22. 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 Council.

23. Heritage Assets

Heritage Assets are those assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities.

24. Housing Revenue Account

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

25. Impairment

A reduction in the value of a fixed asset, as shown in the balance sheet, to reflect its true value.

26. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

27. International Financial Reporting Standards (IFRS's)

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS's are issued by the International Accounting Standards Board (IASB).

28. Long Term Investments

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

29. Materiality

This is one of the main accounting concepts. It ensures that the Financial Statements include all the transactions that, if omitted, misstated or obscured, could reasonably be expected to influence decisions that primary users make on the basis of the Financial Statements.

30. Minimum Revenue Provision (MRP)

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

31. Money Market Funds

Pooled funds which invest in a range of short term assets (MMF) providing high credit quality and high liquidity.

32. Non Domestic Rates Retention

Business rate levied on companies, firms etc, collected by the Council as the billing authority and paid in specified shares to Central Government, Southampton City Council and Hampshire and Isle of Wight Fire & Rescue Authority.

33. Net Book Value

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

34. Net Expenditure

Total expenditure for a service less directly related income.

35. 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.

36. Non-Operational Assets

Property Plant and Equipment held by the Council 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.

37. Operating Leases

A lease other than a finance lease (see 17).

38. Operational Assets

Property Plant and Equipment held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

39. 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 are signed by the responsible financial officer.

40. Prepayments

Payments made by the Council in advance of goods or services being supplied.

41. Private Finance Initiative (PFI)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

42. Property, Plant and Equipment

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

43. Provision

A liability of the Council where there is uncertainty about when it will be settled and/or how much the Council will have to pay.

44. Public Works Loans Board (PWLB)

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB’s function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

45. Receipts in Advance

Payments taken by the Council in advance of goods or services being supplied to recipients.

46. Reserves

The balances in the Balance Sheet that show variously the revenue and capital resources available to support the provision of services by the Council, the cumulative effect of statutory adjustments to manage the availability of those resources for particular financial years, and balances of revaluation gains and losses on assets that have yet to be realised.

47. Revaluation Reserve

The Revaluation Reserve is an unusable reserve that contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment.

48. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure which may properly be deferred, but which does not result in a tangible asset. An example of revenue expenditure funded from capital under statute is expenditure on improvement grants. These were previously referred to as deferred charges.

49. Revenue Expenditure / Income

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

50. Stock

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;
- Finished goods.

51. Trade Payables

The amounts that the Council owes for goods and services that it has received in the course of its normal activities but which have yet to be paid for.

52. Trade Receivables

The amounts that the Council is owed for goods and services that it has provided in the course of its normal activities but which have yet to be paid for.

53. Treasury Management

The management of the Council’s debt and investment of surplus funds.

54. Useful Life

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

ANNUAL GOVERNANCE STATEMENT - DRAFT

SCOPE OF RESPONSIBILITY

Southampton City Council (“the council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

http://www.southampton.gov.uk/council-democracy/corp-governance/

or can be obtained from the:

Director of Legal and Governance
Southampton City Council
Civic Centre
Southampton
SO14 7LY

This statement explains how the council has complied with the local code and meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures, and values by which the council is directed and controlled and its activities through which it accounts to, engages with, and leads its communities. To demonstrate compliance with the principles of good corporate governance, the council must ensure that:

- it does the right things;
- in the right way;
- for the right people; and
- in a timely, inclusive, open, honest, and accountable manner.

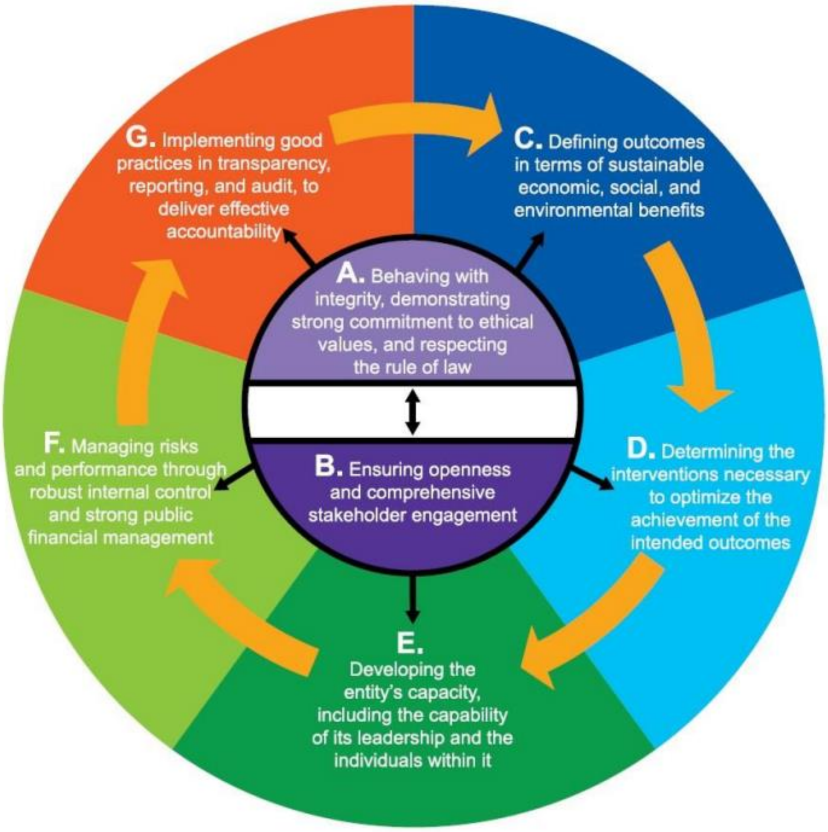
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk. Delivering good governance is a process of continuous review and improvement.

The system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively, and economically.

The governance framework has been in place at the council for the year ended 31st March 2024 and up to the date of approval of the statement of accounts.

The Governance Framework

The diagram below, taken from the International Framework: Good Governance in the Public Sector, illustrates the various principles of good governance in the public sector and how they relate to each other.

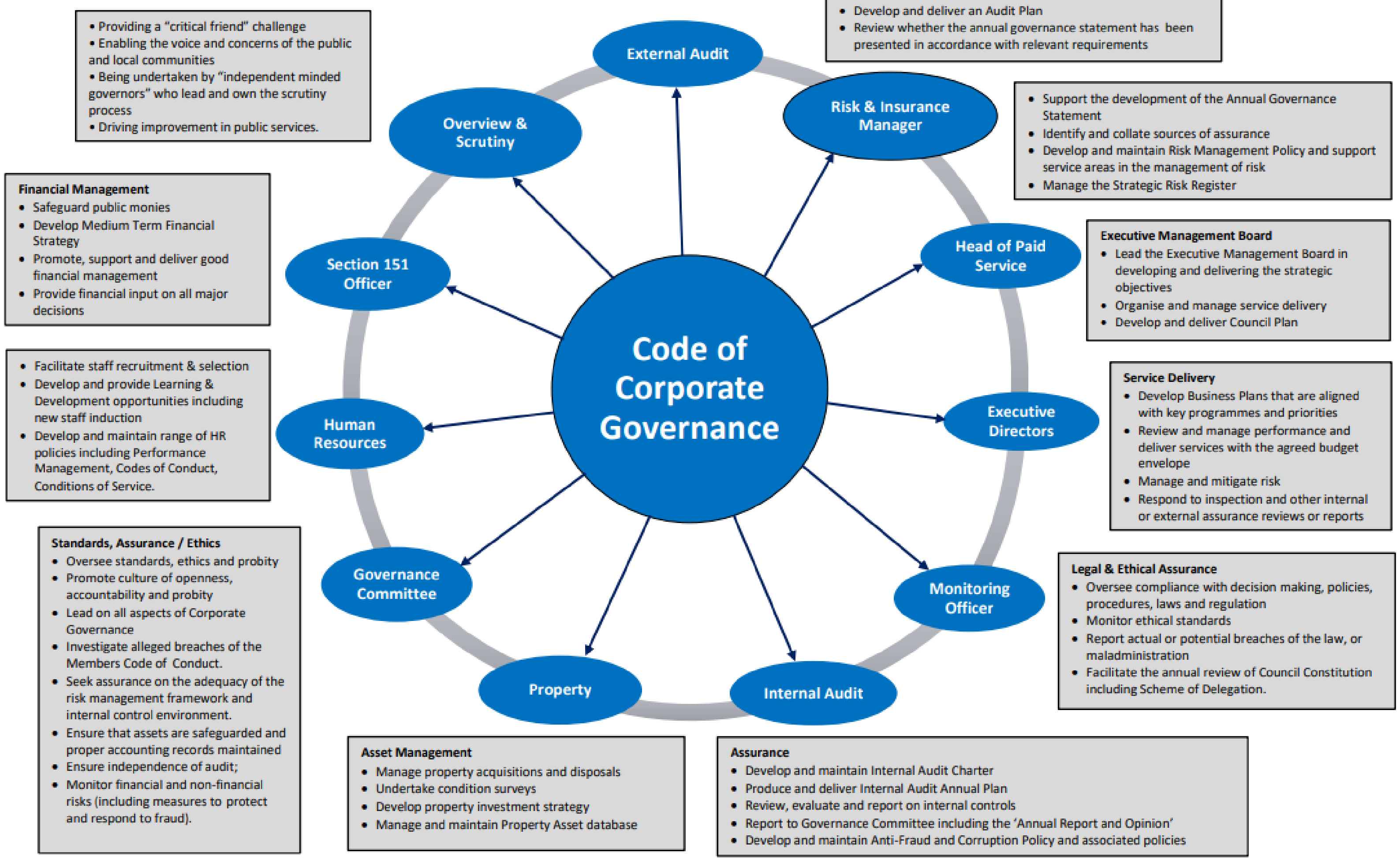


The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

The council's governance framework comprises:

- A suite of governance and strategic policies and documents;
- Its systems and processes of governance;
- The council's culture and people that direct and control the authority and its activities and through which it engages with the community and other stakeholders.

GOVERNANCE ROLES & RESPONSIBILITIES



- Provide Annual Report and opinion on the financial statements
- Provide a Value for Money Report
- Provide opinion on conclusions relating to going concern
- Develop and deliver an Audit Plan
- Review whether the annual governance statement has been presented in accordance with relevant requirements

- Support the development of the Annual Governance Statement
- Identify and collate sources of assurance
- Develop and maintain Risk Management Policy and support service areas in the management of risk
- Manage the Strategic Risk Register

Executive Management Board
- Lead the Executive Management Board in developing and delivering the strategic objectives
- Organise and manage service delivery
- Develop and deliver Council Plan

Service Delivery
- Develop Business Plans that are aligned with key programmes and priorities
- Review and manage performance and deliver services with the agreed budget envelope
- Manage and mitigate risk
- Respond to inspection and other internal or external assurance reviews or reports

Legal & Ethical Assurance
- Oversee compliance with decision making, policies, procedures, laws and regulation
- Monitor ethical standards
- Report actual or potential breaches of the law, or maladministration
- Facilitate the annual review of Council Constitution including Scheme of Delegation.

Assurance
- Develop and maintain Internal Audit Charter
- Produce and deliver Internal Audit Annual Plan
- Review, evaluate and report on internal controls
- Report to Governance Committee including the 'Annual Report and Opinion'
- Develop and maintain Anti-Fraud and Corruption Policy and associated policies

Asset Management
- Manage property acquisitions and disposals
- Undertake condition surveys
- Develop property investment strategy
- Manage and maintain Property Asset database

Standards, Assurance / Ethics
- Oversee standards, ethics and probity
- Promote culture of openness, accountability and probity
- Lead on all aspects of Corporate Governance
- Investigate alleged breaches of the Members Code of Conduct.
- Seek assurance on the adequacy of the risk management framework and internal control environment.
- Ensure that assets are safeguarded and proper accounting records maintained
- Ensure independence of audit;
- Monitor financial and non-financial risks (including measures to protect and respond to fraud).

- Facilitate staff recruitment & selection
- Develop and provide Learning & Development opportunities including new staff induction
- Develop and maintain range of HR policies including Performance Management, Codes of Conduct, Conditions of Service.

Financial Management
- Safeguard public monies
- Develop Medium Term Financial Strategy
- Promote, support and deliver good financial management
- Provide financial input on all major decisions

- Providing a "critical friend" challenge
- Enabling the voice and concerns of the public and local communities
- Being undertaken by "independent minded governors" who lead and own the scrutiny process
- Driving improvement in public services.

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The council's **Constitution** sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent, and accountable to local people. Some of these processes are required by the law, while others are a matter for the council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the council's business. The Constitution is published on the council's website at:

http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx

The Constitution includes both **Officers' and Members' Codes of Conduct** which set out the expected behaviour and standards to be adhered to. In addition, there is a **Code of Conduct for Employees** which states the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Director of Legal and Governance is the '**Monitoring Officer**' and has responsibility for ensuring compliance with established policies, procedures, laws, and regulations, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

A '**Whistleblowing (Duty to Act) Policy**' is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an '**Anti-Fraud, Bribery and Corruption Policy**' that applies to any actual or suspected internal or external fraud, bribery, corruption, and dishonest dealing that involve the council and or its Members and staff. It also applies to contractors, suppliers, partners, agents, intermediaries, and service users. The council also has in place an '**Anti-Money Laundering policy**' which sets out the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy details the procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

The council also participates in the Cabinet Office's **National Fraud Initiative** which is a data matching exercise to assist in the prevention and detection of fraud. The council is required to provide particular sets of data to the Minister for the Cabinet Office for matching for each exercise.

Investigations and special reviews into suspected fraud or irregularities are overseen by an '**Investigation Steering Panel**', comprising the Monitoring Officer, Chief Internal Auditor and the Section 151 Officer (Executive Director of Corporate Services).

The council takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and use these valuable opportunities to learn and improve for the future. There is a '**Corporate Services and Adult Social Care Complaints Policy**' that is published on the council's website and explains how to make a complaint and how it will be dealt with. There is also a separate 'Children's Services Complaint Procedure' which is also published on the council's website. Complaints relating to the conduct of Members are dealt with under the **Members' Code of Conduct**.

In addition, a "paper" complaints form is made available at "in person" contact points e.g. Libraries and Housing Offices etc, to make complaints, compliments and comments accessible to those without internet access.

On an annual basis the Director of Legal and Governance presents a report to the council's Governance Committee on 'Local Government and Social Care Ombudsman Complaints' and a separate 'Annual

Review of Complaints' report.

The council's **'Social Value and Green City Procurement Policy'** aims to ensure that Council's suppliers, bidders and other stakeholders are aware of the Council's commitment to long-term social, ethical, environmental and economic sustainability and how they are expected and required to contribute.

The council also has in place information to staff regarding Modern Slavery and Human Trafficking Statement, how to spot the signs and how to report concerns. In addition, Modern Slavery is one of the councils' mandatory e-learning training modules for staff.

Principle B: Ensuring openness and comprehensive stakeholder engagement

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought. The **council's website includes a 'Have your say' section** which provides information to residents, customers, and other stakeholders on how they can 'have their say' on various issues, including via:

- Consultations
- Surveys and research
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

Southampton City Council runs a broad **city survey** every few years to collect resident views on a range of topics. It provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. **Surveys have been conducted in 2014, 2016, 2018 and 2020**. Each year a set of common Local Government Association (LGA) questions are included, which allows Southampton to be benchmarked against the national average and for trends to be tracked over time, as well as questions relating to emerging priority areas. The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on Council and other public services
- Communications and Digital exclusion
- Employment
- City of Culture bid
- Transport
- Wellbeing

The results from the 2020 Southampton City Survey, together with past reports, can be downloaded from the Southampton Data Observatory. The most recent City Survey was undertaken in late 2024 with the consultation closing on 5th January 2025**.**

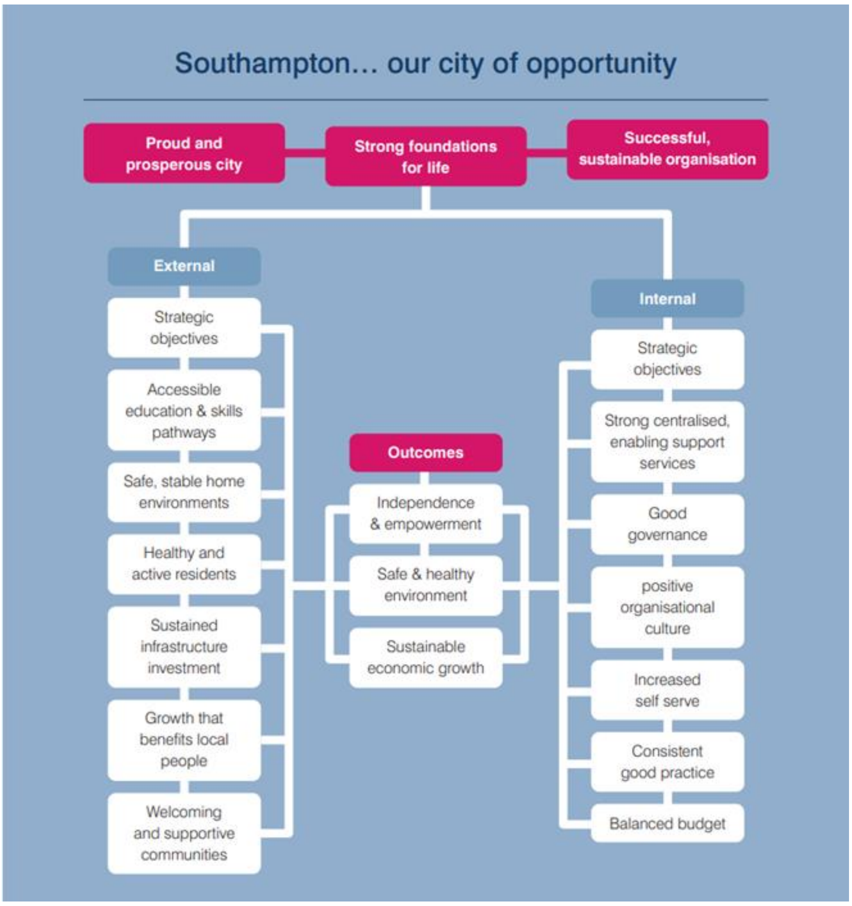
The council has in place a **'People's Panel'**, which is open to any resident over the age of 18 to join, and comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city and provides an opportunity to influence how services are delivered, highlight issues, and help shape public services in the community. Run by Southampton City Council, and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from our surveys have been used to inform a number of decisions and service changes. To understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity, and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

There is a strong focus on children and young people in the city, and in 2022, Southampton City Council started working with UNICEF UK to become a **Child Friendly City**. The programme aims to create cities and communities in the UK where all children – whether they are living in care, using a children's centre, or simply visiting their local library – have a meaningful say in, and truly benefit from, the local decisions, services and spaces that shape their lives.

Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

The council has in place a **2022-30 Corporate Plan** which sets out the council's direction for the next eight years and shows how it will play its part in fulfilling the city's huge potential. The Corporate Plan articulates the organisational vision, goals and areas of focus of the Council over the next eight years and aligns to other key strategies across the Council such as Health and Wellbeing, Safe City Partnership, Economic and Green Growth and Children and Young People and supports key internal strategies.

The **Corporate Plan was updated in March 2024** to reflect the financial pressures facing the council and the strategy to achieve financial stability through transformation and economic growth. The core goals within the Corporate Plan have been reviewed and refined, with outcomes that focus on improving the lives of residents and growing the economic and health prosperity of our city. Strategic objectives have been developed that provide more specifics around areas of focus to make that step-change, and the business planning framework will ensure the work of all areas of the council are aligned to the achievement of these objectives, outcomes, and goals.



As part of this update the **employee values** were also reviewed and have been evolved to reflect how individuals and service areas work best together in challenging times of great opportunity.

A **Corporate Performance Framework** is in place, and being further developed to ensure that there is the right overview of performance across the organisation. As part of this, a regular Key Performance Indicator (KPI) report is to be developed to ensure council performance is aligned with the Corporate Plan and demonstrate progress towards achieving the outcomes and objectives. These reports will be shared and discussed within the council regularly to ensure that progress is being made and updates will also be provided on the council's website.

There are also other key strategies that reflect the vision and ambition of both the city and wider region, including the **Southampton City Strategy** (2015-2025) which is a partnership strategy that sets out the vision for the whole city. The strategy was developed in partnership with representatives from business, the public, voluntary and education sectors and the City Council. The City Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and safer communities.

At a sub-regional level there is currently a triumvirate of key strategic organisations, the **Partnership for South Hampshire ('PfSH')**, the Solent Growth Partnership ('SGP') and **Solent Transport**, that manage the policy agenda in the sub-region.

The **PfSH** is a partnership of twelve local authorities around the Solent, including Southampton City Council, that aims to improve the environmental, cultural, and economic performance of the South Hampshire area. The PfSH brings the partner organisations together at both a political and managerial level and is focused on supporting economic growth, delivery of housing and the infrastructure to achieve this in a sustainable manner, and to maintain and enhance the quality of the environment. The PfSH work will be a key element in developing statutory planning policy for the city by [a] demonstrating at a strategic level that the 'duty to cooperate' requirements are being achieved and [b] in helping to identify how housing growth and related infrastructure can be delivered to meet the needs of the city within a sub-regional context. The PfSH engages with a range of other local organisations, stakeholders, and Government to achieve these aims.
.
The SGP is a local authority partnership between Isle of Wight, Portsmouth, and Southampton Councils, established to adopt the previously devolved responsibilities of the 'Solent Local Enterprise Partnership ('the LEP'). The partners have recently created a new Solent Growth and Prosperity Strategy which sets out its ambitions, priorities, and approaches to facilitating the growth of the local economy to create stability and prosperity. This is a joint strategy, which embodies the strategic alliance across the three upper-tier local authorities.

Solent Transport is a sub-regional transport partnership that comprises Portsmouth, Southampton, the Isle of Wight, and Hampshire County Council. Solent Transport and its partner bodies are important members of Transport for the South East. The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence, and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders, and other agencies to deliver transport infrastructure, networks, and systems crucial to keep the region moving and generate economic growth, wealth, and sustainability.

Following the general election in July 2024 regions were requested by the Ministry of Housing Communities and Local Government (MHCLG) to submit an expression of interest (EOI) to create a combined authority. The leaders of Hampshire, Isle of Wight, Portsmouth and Southampton each submitted a joint EOI. A further application was submitted by the four upper tier authority's to join the governments' devolution priority programme with the deadline being 10th January 2025. Further to this, government has signalled that it will let areas know early in the New Year (2025) which have been successful. Subsequent to the necessary approvals both locally and nationally areas in the priority programme will be expected to have arrangements in place in time for May 2026 elections. The Government white paper also details plans for wider local government reorganisation ending two-tier county and district council arrangements by reorganising local government to create new unitary local authorities with populations of at least 500,000.

Southampton Council is a Member of the **Solent Freeport consortium**. The Solent Freeport will encompass Southampton and Portsmouth, as well as areas of the New Forest, Isle of Wight, and southern Hampshire. Freeports are an important Government programme that are expected to play an important part in the UK's post-Covid and post-Brexit economic recovery, boosting the local economy and creating additional local jobs. Freeport status means that normal tax and customs rules do not apply and varying forms of tariff flexibility, tax measures and planning concessions deployed by the Government should help to incentivize private sector investment.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

The council has in place a robust **decision-making process** that clearly sets out the actions and accountability in terms of when, how and by whom decisions are taken and where responsibility for decisions making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why it is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

The council's **Overview and Scrutiny Management Committee** ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The **Scrutiny Inquiry Panel** carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the **Health Overview and Scrutiny Panel** undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the **Children and Families Scrutiny Panel** scrutinises services for children and families in the city, including education.

In 2022 the Council, through the Local Government Association (LGA), commissioned the **Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review** to assist the council to consider how it might enhance its approach to governance and decision-making. The CfGS is a nationally recognised charity which supports local authorities to ensure sound governance practices are in place and is an independent body and this work was undertaken at no cost to the council. In particular the review considered and commented on:

- The consistency of decision-making systems
- The speed of those systems

- Clarity in who leads on, and makes, decisions
- Checks and balances with regard to the above
- The expectations of both members and officers with regard to the above

The review was based on a range of interviews with members and officers, detailed examination of a very small number of decisions, supplemented by a more general review of Cabinet and scrutiny committee papers, the Forward Plan and other relevant material. A final draft report was presented in the Summer 2022 for consideration and initial thoughts and observations. The CfGS reflected on those responses and produced the final report in September 2022 which was subsequently presented to the council's Governance Committee in November 2022. Following that, a 10-point Action Plan was agreed by Governance Committee in November 2022 and incrementally implemented in 2023.

The CfGS carried out a follow up review in Winter 2023. The significant (and ongoing developmental) actions in respect of improved report writing and consistency of approach to formal decision making including specifically ESIAs (impact assessments) were to be progressed through externally facilitated workshops by CfGS and the LGA. These had to be deferred due to CfGS's work programme being refocussed to support other authorities, however the workshops were undertaken in September 2024. A further two workshops have been scheduled for 28th & 30th January 2025 with the workshops themed to cover:

- Effective Collaboration.
- Understanding Member Need.
- Improving Information Provision.
- Systemic Communication.

A more fundamental review of both corporate governance and the Constitution was originally scheduled for the second half of 2024 however it was not able to be commenced until January 2025 with the intention that the overall exercise is completed by May 2025 for the Council 'Annual General Meeting'.

Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

The council has had a new **People Strategy** in place since the beginning of 2023, called **'Our People'** that aims to create an organisation where people can be the best of themselves, grow and do their finest work, making Southampton a city of opportunity. Our People sets out a high-level vision, priorities, desired outcomes, with an action plan to drive this forward.

Our People strategy sits alongside both the Medium-Term Financial Strategy and the Customer Strategy and takes account of challenges in relation to the overall council budget. It is used to inform resource allocation decisions, organisational development, and drive positive change and the delivery of agreed outcomes.

The council has in place leadership development modules for senior leaders intended to allow them to learn, and share insights and expertise based on the following development areas:

- Continuous Improvement
- Creativity, Innovation and Commercial Mindset/Entrepreneurial
- Cultural Change
- Leading Change
- Making Difficult Decisions
- Performance Management

There are also learning modules and programmes in place aimed at people new to line managing others, existing team leaders, and managers up to middle managers. These are based on the council's core values and built around the leadership competencies with one of the modules being 'Ethics and Values' which explores the seven principles of public life and the values and behaviours that underpin these.

In respect of Elected Members, a revised internal **Member Induction and Development programme** was delivered that offered a suite of learning and development opportunities via targeted service focused sessions or via a monthly briefing programme. Alongside the internal offer, a range of externally delivered training events and courses were delivered by the 'Local Government Association and South East Employers. These opportunities ranged from 'being a new councillor', supported skill development such as chairing meetings, to portfolio based learning and leadership development training. The LGA have also offered coaching programmes for newly elected Cabinet Members. Members are asked for feedback on the programme and their feedback is incorporated as part of the annual review and refresh to ensure we continuing of offer a comprehensive and wide ranging suite of learning and development opportunities to support all members.

The council also has in place a **Workplace Equalities Policy** which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves.

Principle F: Managing risk and performance through robust internal control and strong public financial management

The council's **Audit Committee** has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Audit Committee undertakes the core functions of an audit committee and operates in accordance with the Chartered Institute of Public Finance and Accountancy ('CIPFA') guidance. The Committee receives a range of periodic reports relating to both the internal control environment and financial management, including receiving the draft Statement of Accounts.

Risk management is an essential component of the Council's overall governance and internal control arrangements and provides the framework and processes to enable the council to manage risk in a systematic, consistent and efficient way. The council has in place a **Risk Management Policy 2022-25** which is intended to assist officers, at all levels, in applying sound risk management principles, practices and judgement across their areas of responsibility. It is also relevant to Members in their capacity as 'decision takers' and the Audit Committee in respect of its responsibility for overseeing the Council's risk management processes and arrangements.

The Audit Committee receives an **Annual Risk Management report** that summarises the framework and arrangements that the council has in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. The report also provides information on the key risk management activities and initiatives undertaken in the year and those planned for the next 12 months.

A key element of the council's risk management framework is the council's **Strategic Risk Register** which is developed in consultation with Executive Directors. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. The Strategic Risk Register is updated on a quarterly basis with a report presented to the council's Executive Management Board. The report identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

In addition to the council's Strategic Risks, it is recognised there are other significant risks within individual directorates relating to the services, actions or activities being delivered or undertaken. During 2023 the council's Executive Management Board agreed that **Directorate Risk Registers** should be developed to capture those significant risks within the service areas that may not be considered as cross-cutting or of be of such significance that they would be considered a 'strategic risk'. The risks captured in a 'Directorate Risk Register' would be typically be aligned with the Service Business Plan in terms of the potential impact on the delivery of the key service priorities and objectives.

Effective financial management is key to managing the delivery of council services. The council's **Medium Term Financial Strategy ('MTFS')** provides the strategic financial framework and forward-looking approach to financial planning for the council and is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the council's financial position, taking account of known pressures, major issues affecting the council's finances, external economic influences, local factors and helps the council to plan for these to pressures and issues so far as these can be seen and assessed. This is particularly important during a period when the council faces considerable pressures and challenges. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services.

Against a backdrop of a challenging economic climate, the council is facing significant pressures however it is focused on right sizing its expenditure and budgets to meet the resources available whilst delivering on the Corporate Plan. There is full recognition of the financial situation and a new **Financial Strategy** was developed and implemented during 2023/24, and is for 2024/25 onwards, which aims to balance the council's finances in the medium term.

When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. As a result of this the **Chartered Institute of Public Finance and Accountancy (CIPFA) were engaged in the Spring of 2023 to review the financial management and the financial resilience of the organisation,** and later in the year to conduct a review of forecasts to provide external validation. CIPFA's report highlighted the reliance on reserves to meet gaps in the council's budget. This has led to balanced budgets being achieved but has eroded the council's reserves. CIPFA recommended that a plan to replenish reserves should be put in place, and that the council needed to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these. The new financial strategy, which is informed by CIPFA's findings, sets out the following five steps to achieve the aim of stabilising the council's general fund account to create a sustainable council:

1. Review budgets to establish the financial position.
2. Right sizing the budget to ensure there is clarity on affordable expenditure levels.
3. Stabilisation to remove in year overspend and ensure the structural deficit has been addressed and reliance on reserves removed.
4. Sustainable budget to ensure the council is sustainable and able to withstand economic and financial shocks.
5. Purposeful investment – all investment, either revenue or capital, to have a clear purpose and strong business case.

A number of recommendations to strengthen the council's financial management arrangements were also made by CIPFA following its review and a **'Financial Management Improvement Plan'** has been developed to address those recommendations.

The council made an application to the government for Exceptional Financial Support (EFS) to help balance the 2024/25 budget and provide for other costs and potential liabilities. Confirmation was received in a Ministerial Statement on 29 February 2024 that the government was minded to support the council by providing an EFS facility for 2024/25. The EFS will be in the form of a 'capitalisation direction', which will allow the council to treat revenue costs as capital expenditure and fund these from capital receipts or borrowing. There are two conditions attached to the EFS – firstly, the council must produce a Transformation and Improvement Plan and secondly, the government will commission an External Assurance Review on the council's use of EFS and progress in its plans to close the structural budget deficit in 2025/26 and beyond.

An **Improvement Board** was established in 2023 with external subject matter experts providing critical challenge and overseeing the progress to a sustainable budget.

The council's financial management arrangements conform to the governance requirements of the CIPFA **'Statement on the Role of the Chief Financial Officer** ("CFO") in Local Government. The Executive Director of Corporate Services (Section 151 Officer and CFO) is professionally qualified and is a key member of the Executive Management Board and reports directly to the Chief Executive. The

CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and also alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

During 2023/24 a **revised business planning framework** was drafted which aligns all business planning activity to strategic objectives, savings proposals and change activity, enabling both short-term challenges and longer-term goals to be addressed. Due to the council's challenging financial position, the focus in 2023/24 was on ensuring that savings proposals were identified, and cash limited budgets achieved however service level business plans, using the revised framework, will be in place in 2024/25.

All significant **commercial partnership working arrangements** also have a range of performance indicators which are used to monitor, verify, and manage service performance as well as separate arrangements in respect of monitoring and assessing financial risk. The council is committed to achieving best value from its procurement activities and contracts and ensuring that goods, services, and works are procured, and contract managed in the most efficient and effective way throughout the lifecycle of the contract. Regular review meetings are held with key suppliers to ensure that contracts remain fit for purpose. Contract Management Teams in the Supplier Management Team and the Integrated Commissioning Unit support the council in managing contracts throughout the lifecycle of the contract and provide senior management interfaces between the council and our service providers.

Principle G: Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The council is committed to openness and transparency and publishing as much council data as it can in order to increase accountability. The **'Council Data' page** on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015).

The council's **Constitution sets out how decisions are made** and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the council and by council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Director of Legal and Governance.

The council produces a **Forward Plan of all Key Decisions** which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and are published on the council's website.

The council's assurance arrangements conform to the governance requirements of the CIPFA statement on **'The Role of the Head of Internal Audit in Public Service Organisations** (2019 Edition)'. This is aligned with the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment.

The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality, and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (e.g. the Governance Committee).

REVIEW OF EFFECTIVENESS

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is led by a 'Controls Assurance Management Group' comprising the Executive Director Corporate Services (Section 151 Officer), Chair of the Governance Committee, Director of Legal and Governance, and the Chief Internal Auditor.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- The views of Internal Audit regularly reported to Audit Committee via periodic 'Internal Audit: Progress Reports' which include executive summaries of new reviews undertaken in the period and noting that any audits rated as 'No Assurance' are specifically highlighted to the Audit Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.
- The views of external auditors, reported to the Audit Committee, including the Audit Planning report, the Annual Audit Letter, the Audit Results Report, and the Auditor's Annual Report.
- The Chief Internal Auditors 'Annual Report and Opinion' for 2023/24 was that the continuing financial pressures experienced during 2023-24 along with identified failings and weaknesses in the internal control framework have resulted in an opinion level of 'limited assurance' remaining in placeThe Internal Audit Charter and delivery of the annual Internal Audit plan.
- The Internal Audit Charter and delivery of the annual Internal Audit plan.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment.
- The 'AGS Self-Assessment Statements' completed by Heads of Service and reviewed by the relevant Executive Director. The self-assessments cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required.
- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls.
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission and including any external reviews that the council may choose to commission such as the exercise undertaken by the Centre for Governance and Scrutiny or CIPFA.
- The Annual Risk Management report that is presented to the Audit Committee.
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1. Governance Issue

When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. As a result of this the Chartered Institute of Public Finance and Accountancy (CIPFA) were engaged in the Spring of 2023 to review the financial management and the financial resilience of the organisation and later in the year to conduct a review of forecasts to provide external validation. Despite implementing a new financial strategy and taking actions during the year to reduce net spend including implementing a cost control panel, a balanced budget for 2024/25 was only able to be achieved with Exceptional Financial Support (EFS) from the government. Subject to meeting the conditions attached to the EFS offer, this will allow revenue expenditure to be capitalised in 2024/25 and provide time for the development and implementation of a transformation programme to bring service delivery back within the resources available in future years. The next financial year (2024/25) will be a critical year for the council as it implements measures to restore financial stability and sustainability and addressing the structural budget deficit (circa £40M for 2024/25).

To strengthen the council’s financial management arrangements CIPFA made a number of recommendations following its review and a ‘**Financial Management Improvement Plan**’ was subsequently developed and approved.

Planned Action: The agreed ‘Financial Management Improvement Plan’ is implemented in 2024/25 together with delivery of a ‘Reshaping Financial Management Project’. These have been established to secure improvements in financial management across the organisation and will be fundamental in terms of supporting effective delivery of the agreed transformation plans in 2024/25 and beyond.

Responsible Officer: Director of Finance / Executive Director Enabling Services

Target date for completion: End Q1 2025/26

2. Governance Issue

One of the conditions attached to the Exceptional Financial. Support is that the council must produce a Transformation and Improvement Plan. This will have an impact on the capacity of and reliance on key staff during this period of significant change.

Planned Action: As the detailed scoping of the transformation and change programme develops the demand on roles across the organisation is being mapped together with an assessment of the overall requirement. Wherever possible and reasonable, resource will be utilised across multiple projects/programmes to maximise capacity. Additional resource will be required and some is already being secured. A prioritisation exercise will be undertaken once the full picture is better understood.

Action Taken: 28 Outline Business Cases setting out the overarching delivery approach for the Transformation Programme were developed, presented and approved by the council’s Cabinet in July 2024. A Transformation governance structure was also established, including an overarching Transformation Board, chaired by the CEO, and seven Portfolio Boards, each chaired by an Executive Director.

Responsible Officer: Director of Strategy and Performance / Transformation Director

Target date for completion: End July 2024

Status: Completed July 2024

3. Governance Issue

In 2022 the Council commissioned the Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review to assist the council to consider how it might enhance its approach to governance and decision-making. A 10-point Action Plan arising from their report was formulated and agreed with the actions implemented throughout 2023/24. The significant (and ongoing developmental) actions in respect of improved report writing and consistency of approach to formal decision making including specifically ESIAs (impact assessments) had to be deferred.

Planned Action: This action was intended to be addressed via externally facilitated workshops by the CfGS and the LGA however this had to be deferred due to the CfGS's work programme being refocussed to support other authorities. These are now being planned for Autumn 2024.

Additionally, a more fundamental review of both corporate governance and the Constitution is scheduled for the second half of the year.

Action Taken: These had to be deferred due to CfGS's work programme being refocussed to support other authorities, however the workshops were undertaken in September 2024. A further two workshops have been scheduled for end January 2025 with the workshops themed to cover:

- Effective Collaboration.
- Understanding Member Need.
- Improving Information Provision.
- Systemic Communication.

A more fundamental review of both corporate governance and the Constitution was originally scheduled for the second half of 2024 however it was not able to be commenced until January 2025 with the intention that the overall exercise is completed by May 2025 for the Council 'Annual General Meeting'.

Responsible Officer: Director of Legal and Governance/ Executive Director Enabling Services

Target date for completion: May 2025

4. Governance Issue

Whilst service business continuity arrangements were used in response to Covid such that critical services were maintained and corporate BCP structures worked, they are required to be reviewed periodically to ensure that they remain fit for purpose and reflect current working arrangements and services.
Directorate-level draft Business Continuity plans are being reviewed with support provided by the Emergency Preparedness, Resilience & Response Team ('the EPRR team') to 'Critical Activity Owners' and Service Level Plan owners using new revised templates. Plan owners were expected to publish in Q4 2023-24 however engagement across the authority is inconsistent.
Completion of the plans will also allow IT to understand the requirements/expectations of service areas in respect of critical IT reliant activities.

Planned Action: An Executive Level Business Continuity exercise has been planned to identify gaps in plans, at corporate and directorate level, and to test current arrangements. This will focus on strategic response to an IT failure. This exercise was scheduled to take place in Q1 2024/25 but has had to be rescheduled for Q2 2024/25.

In the meantime directorates have been recommended to nominate a designated business continuity lead to support plan reviews and provide consideration of corporate resilience in any service redesign. The EPPR team will continue to provide support and guidance to those designated individuals tasked with updating and refreshing their Service Business Continuity arrangements, with tabletop exercises able to be arranged to support the completion of plans and test current arrangements.

The EPPR team will be participating in the Local Resilience Forum's Resilience Direct Business Continuity exercising and encouraging directorates to support this exercise to further develop their business continuity knowledge and engagement.

Action Taken: A tabletop Business Continuity discussion with the council's Management Board was held in Q2 2024-25 and recommended steps were agreed including having a designated officer per service area to review plans and with a deadline of end of March 2025 for all Service Business Continuity plans to be reviewed, signed off and published. From April 2025 a facilitated tabletop test of each Service BCP will be required annually. A review of the Corporate Plan and Policy began in Q3 2024-25 and will be signed off and published in Q4 2024-25.

Responsible Officer: Head of Emergency Preparedness, Planning & Response / Executive Director Resident Services

Target date for completion: Q4 2024/25

5. Governance Issue

During 2023-24 it was identified that a reinvigorated business planning approach needed to be designed to better support business and budget planning over the short and medium term and be aligned with the new Corporate Plan.

The revised business planning framework, which aligns strategic objectives, savings proposals and transformation activity to the Corporate Plan and the MTFS, was developed in 2023-24 however the roll out of the new approach was deferred due to the focus being on the significant financial challenge and recognising the need for it to be aligned with the new Financial Strategy.

Planned Action: Roll out and embed the new Business Planning process. This will be supported by a cross organisational Business Planning & Performance group which is responsible for appropriate application of the framework and continuity of business planning across SCC, including ensuring that plans are shared across the group and more widely so that each area is fully understood and supported by others. Through the planning process, agreed performance measures will be identified, tracked and reported on at appropriate regularity. The framework approach also addresses risk identification, mitigation and tracking of actions.

Action Taken: A Business Planning & Performance group meets monthly and is responsible for appropriate application of the framework and continuity of business planning across SCC, including ensuring that plans are shared across the group and more widely so that each area is fully understood and supported by others. Draft Directorate Business plans have been developed and are being further refined.

Responsible Officer: Director of Strategy and Performance

Target date for completion: End Q4 2024/25

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

………………………………………………	………………………………………………
Andrew Travers	**Councillor Lorna Fielker**
Chief Executive	Leader of the Council

On behalf of Southampton City Council

AUDITOR’S REPORT

Agenda Item 9

DECISION-MAKER:		AUDIT COMMITTEE		
SUBJECT:		TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2025/26 TO 2028/29		
DATE OF DECISION:		12 FEBRUARY 2025		
REPORT OF:		EXECUTIVE DIRECTOR CORPORATE SERVICES AND S151 OFFICER		
CONTACT DETAILS				
AUTHOR:	**Title:**	Director of Finance	**Tel:**	023 8083 2936
	Name:	Richard Williams		
	E-mail:	Richard.Williams@southampton.gov.uk		
Director	**Title:**	Executive Director Enabling Services and S151 Officer	**Tel:**	023 8083 3528
	Name:	Mel Creighton		
	E-mail:	Mel.Creighton@southampton.gov.uk		
STATEMENT OF CONFIDENTIALITY				
NOT APPLICABLE				

BRIEF SUMMARY

With overall annual expenditure more than £600M and an extensive capital programme, the Council is required to actively manage its cash-flows daily. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the associated risks. This includes the loss of invested funds and the revenue effect of changing interest rates.

Investment limits within this report have been adjusted accordingly in line with the strategy.

AUDIT COMMITTEE

It is recommended that AUDIT COMMITTEE:

	(i)	Note the Council's Treasury Management (TM) Strategy and Indicators for 2025/26 to 2028/29, as detailed in Appendix 1 to be taken to Full Council on the 26 February 2025 for approval.
	(ii)	Note that at the time of writing this report it has been assumed that the budget proposals within the Medium-Term Financial Strategy, Budget and Capital Programme 2025/26 to 2028/29 report, to be reported to Council on the 26 February 2025, will be approved. Should the recommendations change and have any impact on the Prudential Indicators this will be reported to Council on 26 February 2025.
	(iii)	The Director of Finance will report any amendments to the TM Strategy as part of quarterly financial and performance monitoring.
	(iv)	Endorse the proposal to continue to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.

REASONS FOR REPORT RECOMMENDATIONS	
1.	To comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Council, each year the Council must set certain borrowing limits and approve the Treasury Management Strategy, as detailed in Appendix 1 (Treasury Management Strategy 2025-26).
2.	This report only covers treasury investments. Investments held for service purposes or for commercial profit will be considered in a separate report being taken to Full Council on 26 February 2025.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report at Full Council on 26 February 2025.
DETAIL (Including consultation carried out)	
	BACKGROUND
4.	Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved money in terms of net interest costs. When opportunities arise long term borrowing has and will be considered.
5.	Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code). These define treasury management investments as those investments that arise from the organisation's cash flows or treasury risk management activity that need to be invested until the cash is required for business use.
6.	The strategy considers the impact of the council's proposed revenue budget and capital programme on the balance sheet position, the treasury prudential indicators and the treasury position. The economic background and outlook for interest rates (Annex 2) has also been considered in developing this strategy.
7.	The council acknowledges that effective TM provides support towards the achievement of its business and service objectives. It is committed to achieving value for money, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To assist, the council has appointed TM Advisors (Arlingclose), who advise on strategy and provide market information to aid decision making. However, it should be noted that the Executive Director– Enabling Services takes the decisions independently, considering this advice and all other factors.
8.	Both the CIPFA Code and government guidance require the council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
9.	Under the IFRS 9 standard, the accounting for certain investments depends on the "business model" for managing them. The aim is to achieve value from treasury investments by a business model of collecting the contractual cash

flows and therefore, where other criteria are met, these investments will continue to be accounted for at amortised cost.

10. The core elements of the 2025/26 Treasury strategy are:

- To constantly review longer term forecasts and to lock into longer and term rates through a variety of instruments as appropriate during the year, to provide a balanced portfolio against interest rate risk.
- To secure the best rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
  - Security of invested capital
  - Liquidity of invested capital
  - An optimum yield which is commensurate with security & liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.

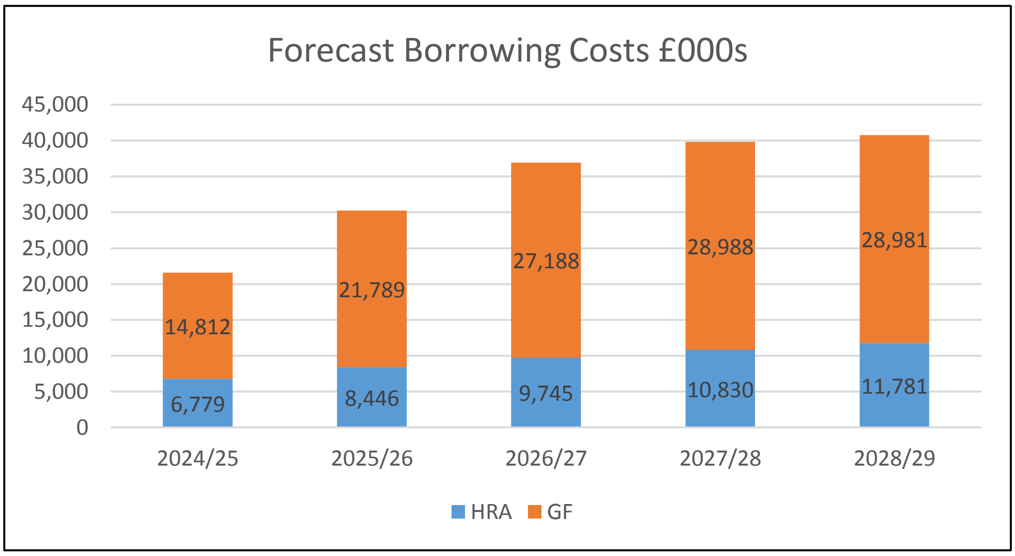
RESOURCE IMPLICATIONS

Capital/Revenue

11. The revenue and capital implications of TM form part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.

12. The forecast for borrowing costs in 2025/26 is £30.24M, of which £8.45M relates to the HRA. This is made up of interest on borrowing of £16.24M (based on an average debt portfolio of £436.28M at an average interest rate of 3.72% plus MRP and other costs of £10.46M. This is forecast to rise to £40.76M (£11.78M HRA) by 2028/29 to accommodate the capital programme, utilisation of reserves, EFS financing and refinancing of borrowing.

New long-term loans taken over the period of the strategy have been budgeted at an average rate of 5%, based on our advisors' forecast rates.



13. Investment income for 2025/26 is forecast to be £2.06M, based on an average portfolio of £47M at an average of 4.38% interest.

Property/Other

14. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

15.	Local Authority borrowing is regulated by Part 1 of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
16.	From 1 April 2004, investments are governed, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1) (a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to "prudent management of its financial affairs" refers to investments, not linked to identifiable statutory functions, but are simply part of TM. It allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, borrowing purely to invest and make a return remains unlawful.

Other Legal Implications:

17.	None

POLICY FRAMEWORK IMPLICATIONS

18.	This report was prepared having regard with the CIPFA Code of Practice on TM.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None

SUPPORTING DOCUMENTATION

Appendices

1.	Treasury Management Strategy 2025-26
Annex 1	Treasury Management Policy Statement
Annex 2	Economic and Interest Outlook
Annex 3	Existing Investment & Debt Portfolio Position and Projections
Annex 4	Projected Movement on Capital Financing Requirement
2.	Treasury Management Practices

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	**No**

Privacy Impact Assessment

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	**No**

Other Background Documents

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	

Appendix 1

Southampton City Council

TREASURY MANAGEMENT STRATEGY

2025/26

Contents

SECTION 1 - INTRODUCTION

1.1 BACKGROUND

1.1.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code)* which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.1.2 Overall responsibility for treasury management (TM) remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's TM objectives. The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. Our current policy is shown in Annex 1 (Treasury Management Policy Statement).

1.1.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

1.2 EXTERNAL CONTEXT

1.2.1 Annex 2 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2024/25 and forecast movement in interest rates.

1.2.2 To set the budget, it has been assumed that new investments for 2025/26 will be short-term and at an average rate of 3.88% and new long-term loans taken over the period of the strategy will be borrowed at an average rate of 5.00%.

1.3 LOCAL CONTEXT

1.3.1 On 31 December 2024 the Council held £381M of debt (£328M borrowing plus £53M other long-term liabilities) and £52M investments which is set out in further detail in Annex 3 (Existing Investment & Debt Portfolio Position and Projections).

1.3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR is reduced by the application of resources such as capital receipts, grants or revenue funds.

1.3.3 While usable reserves and working capital (balance sheet resources) are the underlying resources available for investment.

1.3.4 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Table 1 shows that the Council has an increasing CFR due to the impact of the capital programme, a decreasing working balance surplus and funding up to £107M for Exceptional Financial Support (EFS) and will therefore need to borrow up to £431M over the forecast period. Annex 4 shows the projected movement on CFR between years.

1.3.5 Table 1: Balance Sheet Summary and Forecast

		31-Mar-24 Actual £M	31-Mar-25 Forecast £M	31-Mar-25 Forecast Movement in year £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M	31-Mar-28 Forecast £M	31-Mar-29 Forecast £M
1	General Fund CFR	345.36	409.71	64.35	520.32	557.83	556.21	547.10
2	Housing CFR	182.05	205.65	23.60	248.71	267.93	286.30	301.27
3	**Total CFR**	**527.41**	**615.36**	**87.95**	**769.03**	**825.76**	**842.51**	**848.37**
4	Less Other Debt Liabilities*	(53.45)	(49.12)	4.33	(45.27)	(41.69)	(37.57)	(32.60)
5	**Loans CFR**	**473.96**	**566.24**	**92.28**	**723.76**	**784.07**	**804.94**	**815.77**
6	Less External Borrowing**	(312.60)	(308.00)	4.60	(293.00)	(280.00)	(267.00)	(254.00)
7	Internal (over) Borrowing	**161.36**	**258.24**	**96.88**	**430.76**	**504.07**	**537.94**	**561.77**
8	Balance sheet Resources	(186.69)	(173.50)	13.19	(174.02)	(178.77)	(178.77)	(178.77)
	Treasury Investments	35.86	48.00		48.00	48.00	48.00	48.00
9	**New Borrowing or (Investments)**	**10.53**	**132.74**	**110.07**	**304.74**	**373.30**	**407.17**	**431.00**

** Finance leases, PFI liabilities and transferred debt which form part of the Council's total debt*

*** shows only loans to which the Council is committed and excludes optional refinancing*

1.3.6 Table 1 shows that the Council's CFR is rising over the next 3 years. This is due to investment in the capital programme, summarised below are the major projects expected to be undertaken:

- School SEND Expansion Programme
- Improving Outdoor Leisure Facilities
- Restoring the City's Heritage assets
- City Regeneration
- Energy Efficiency Investment in Homes (HRA)
- Improving Quality in Homes (HRA)

1.3.7 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2025/26, as our committed borrowing (row 6) is significantly below our loans CFR (row 5).

1.4 Liability Benchmark

1.4.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £20M at each year-end to maintain sufficient liquidity but to further minimise credit risk.

1.4.2 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

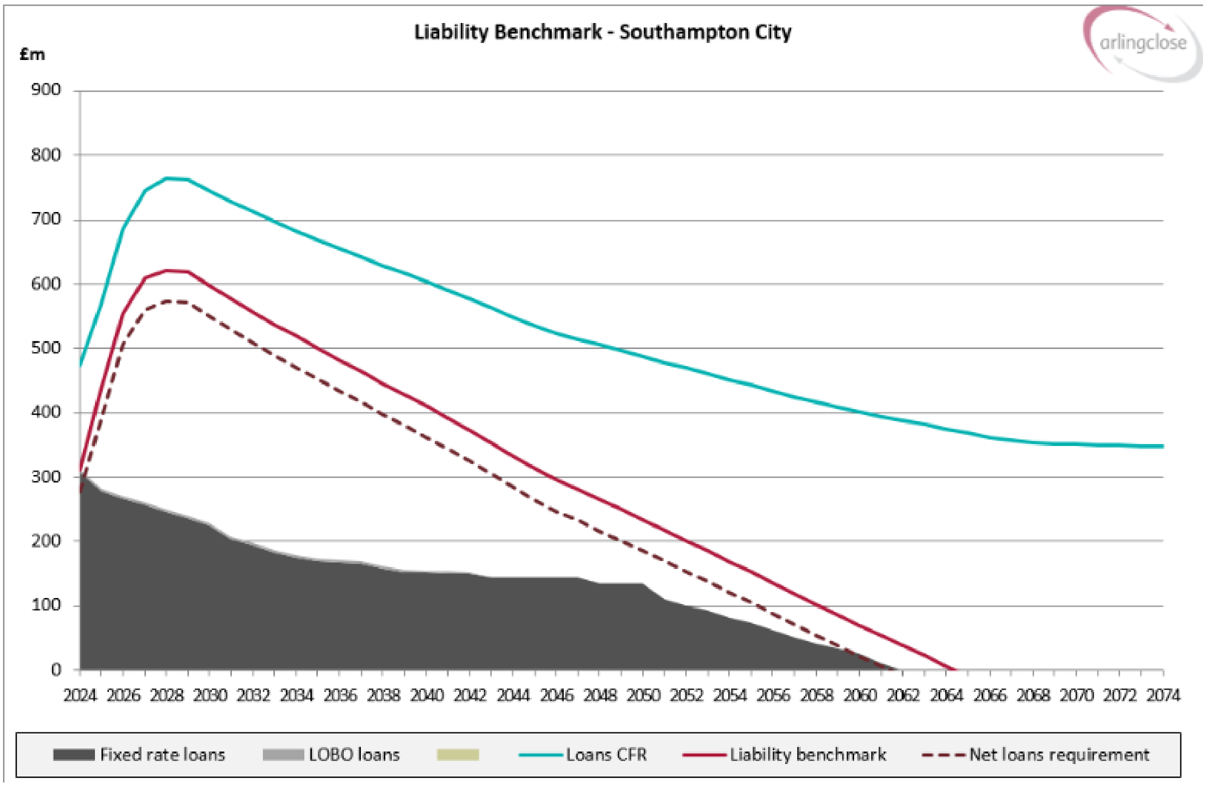
Table 2: Liability benchmark

	31/03/2024 Actual £M	31/03/2025 Forecast £M	31/03/2025 Forecast Movement £M	31/03/2026 Forecast £M	31/03/2027 Forecast £M	31/03/2028 Forecast £M	31/03/2029 Forecast £M
Loans CFR	**473.96**	**566.24**	**92.28**	**723.76**	**784.07**	**804.94**	**815.77**
Less Usable Reserves	(186.69)	(173.50)	13.19	(174.02)	(178.77)	(178.77)	(178.77)
Plus Minimum Investments	35.86	48.00	12.14	48.00	48.00	48.00	48.00
Liability Benchmark	**323.13**	**440.74**	**117.61**	**597.74**	**653.30**	**674.17**	**685.00**
Less Committed External Borrowing	(312.60)	(308.00)	4.60	(293.00)	(280.00)	(267.00)	(254.00)
Minimum Borrowing Need	**10.53**	**132.74**	**122.21**	**304.74**	**373.30**	**407.17**	**431.00**
Less HRA Borrowing Liability	(0.71)	(7.73)	(7.02)	(57.09)	(82.60)	(107.26)	(128.53)
GF Minimum Borrowing Need / (Investment)	**9.82**	**125.01**	**115.19**	**247.65**	**290.70**	**299.91**	**302.47**

1.4.3 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes minimum revenue provision based on the life of the asset and income, expenditure and reserves all increasing by inflation. This is shown in the chart below together with the maturity profile of existing borrowing.

1.4.4

Chart 1 – Liability Benchmark



1.4.5 This demonstrates that even with lower investment balances that there is still an underlying need for the council to borrow during 2024/25 as our current committed debt at £308M will be below the benchmark of £441M.

SECTION 2 - BORROWING STRATEGY

2.0 The Council currently holds £328M of loans, an increase of £15M since 31 March 2024, which was taken to partially fund the capital programme and replace maturing debt, this reflects the Council's policy of only borrowing when cash flows dictate or unless a particular good opportunity arises or to protect itself against an expected material increase in PWLB rates. The balance sheet forecast in Table 1 above shows that the total loans CFR is expected to increase by £92M in 2024/25 and by a further £157M in 2025/26 bringing the total loans CFR to £724M.

As can be seen in table 2 committed borrowing at the end of 2024/25 is £308M, a reduction of £5M from the actual position at 31 March 2024, this reflects maturities in year of £31M and net new borrowing to date of £26M. If the forecast capital programme is achieved, reserves fall as predicted and £71M is required for EFS, then further borrowing of up to £133M will be required by 31 March 2025.

2.1 Objectives

2.1.1 The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

2.2 Strategy

2.2.1 Given the significant cuts to public expenditure and to local government funding, the borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping interest rate exposure within the limit set in the treasury management prudential indicators.

2.2.2 By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist calculating the 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

2.2.3 If it was cost effective, additional sums could be borrowed to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

2.2.4 Alternatively, forward starting loans could be taken, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost, without suffering a cost of carry in the intervening period. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.

2.3 Sources of Borrowing

2.3.1 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments (see below)

- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except HCC Pension Fund)
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

2.3.2 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative (PFI)
- sale and leaseback

2.3.3 The Council has previously raised much of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield (except for refinancing of existing debt; including internal financing) the council intends to avoid this activity, and therefore retain its access to PWLB. Regeneration aims for investment remain acceptable, but all capital plans will be scrutinised by Government and will require the S151 officer to state they contain no ‘invest for yield’ proposals relying on borrowing.

2.3.4 **UK Municipal Bonds Agency plc (MBA)**

2.3.5 MBA was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment if the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

A report was considered by full Council on 10 February 2016. Any proposal to borrow from MBA will need a further report to Audit Committee and Full Council.

2.3.7 **Lender’s Option Borrower’s Option Loans (LOBOs)**

2.3.8 The Council holds £4M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council can either accept the new rate or repay the loan at no additional cost. The LOBOS have options during 2025/26 and with interest rates having risen recently, there is now a good chance that lenders will exercise their options. If so, the council will take the option to repay LOBO loans at no cost to do so to reduce refinancing risk.

2.4 **Short Term and Variable Rates**

2.4.1 Short term loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the TM indicators. Financial derivatives may be used to manage this interest rate risk, in line with the CIPFA code, external advice would be sought before entering into any agreement to ensure the implications are fully understood.

2.5 Debt Rescheduling

2.5.1 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

SECTION 3 – TREASURY INVESTMENT STRATEGY

3.0 The Council invests its money for three broad purposes:

- because it has surplus cash from day-to-day activities (**treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income, as the main purpose (**commercial investments**).

In the past 12 months, the treasury investment balance has ranged between £99M and £36M, and similar levels are expected to be maintained in the forthcoming year.

3.1 Objectives

3.1.1 The CIPFA Code requires funds to be invested prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Whilst a return is sought, the aim of TM activity is not primarily commercial in nature, it reflects addressing the cashflow needs of the council and the need for prudence and risk minimisation with public cash holdings.

The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk, for example a covered bond.

The council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

3.2 Strategy

3.2.1 As demonstrated by the liability benchmark above, the council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income but will be regularly reviewed.

Most cash used for cash flow purposes is invested in money market funds, DMADF or with other Local Authorities.

3.3 ESG Policy

3.3.1 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, priority will be given to banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

3.4 Business Model

3.4.1 Under the new IFRS 9 standard, the accounting for certain investments depends on the “business model” for managing them. The aim is to achieve value from its internally managed treasury investments by collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

3.5 Approved Counterparties

3.5.1 The council may invest its surplus funds with any of the following counterparty types, subject to the cash limits (per counterparty) and time limits detailed below. The working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the S151 Officer.

3.5.2 Table 3: Approved Investment counterparties and Limits

Sector	**Time limit**		**Counterparty limit**	**Sector limit**
	Previous	**New (capped)**		
The UK Government	50 years	3 years	Unlimited	n/a
Local authorities & other government entities	25 years	3 years	£10M	Unlimited
Secured investments *	25 years	3 years	£10M	Unlimited
Banks (unsecured) *	13 months	13 months	£5M	Unlimited
Building societies (unsecured) *	13 months	13 months	£5M	10%
Registered providers (unsecured) *	5 years	3 years	£10M	25%
Money market funds *	n/a	n/a	£10M & no more than 0.50% of any investment fund in total for non-government funds	Unlimited
Strategic pooled funds	n/a	n/a	£30M	50%
Real estate investment trusts	n/a	n/a	£20M	25%
Other investments *	5 years	3 years	£1M	5%

*****_This is the absolute limit, and the working limit will be monitored against actual cash flows and movement on reserves together with advice from TM advisors and adjusted each quarter as necessary by S151._

Given the forecast need to borrow in 2025/26 the time limits have been updated to no longer than 3 years. Table 3 must be read in conjunction with the notes below.

3.6	**Investment Institutions**
3.6.1	**Minimum Credit Rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered. For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £1M per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.
3.6.2	**UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. Deemed to be zero credit risk due to government's ability to create additional currency and may be made in unlimited amounts for up to 50 years.
3.6.3	**Local authorities and other government entities**: Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.
3.6.4	**Secured Investments**: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
3.6.5	**Banks and Building Societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts
3.6.6	**Registered Providers (unsecured):** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
3.6.7	**Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the council diversifies its liquid investments over a variety of providers.

3.6.8	**Strategic Pooled Funds**: Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the council's investment objectives will be monitored regularly. The council has been invested in the CCLA Local Authorities' Property Fund (CCLA LAPF) since 2014 (with tranches of investments made until 2017). The intention was to act as a long-term, patient investor, and seek a good level of income (particularly compared to cash prior to Bank Rate increasing during 2022 and 2023), while the capital value fluctuates over time depending on the value of the underlying assets. Considering the Council's changing circumstances, external environment and possible accounting treatment, the Council will actively consider opportunities to exit the investment, in an orderly manner, over time. Commercial property market values look to be at a relative low point and the Council, as a long-term investor, does not wish to sell at the bottom of a market cycle. Doing so would crystalise an overall capital loss on its investment, so disinvestment will not be undertaken immediately. It is felt that a sensible strategy will be to sell in tranches (up to £5m) into a rising market, in the medium-to-long term as the rates on which property prices are valued fall back and economic activity improves. The Fund has a minimum redemption period of 6 months and pricing performance is reported monthly and typically operates on a lag, meaning the final sale price is not known in advance. Exit opportunities therefore need to be considered in the wider context of fund, sector, market and economic movements and trends. The Council will continue to monitor changes and consider selling when it has observed a stabilised, improving position.
3.6.9	**Real estate investment trusts (REITS):** Shares in companies that invest mainly in real estate and pay most of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
3.6.10	**Other investments**: This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the investment at risk.
3.6.11	**Operational bank accounts**: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept to a minimum. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.
3.6.12	Given the stresses placed on the council's budget, all forms of investment will be carefully monitored during the year. The S151 officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on core investment portfolio will be reported quarterly to Cabinet.

3.7 Risk Assessment and Credit Ratings

3.7.1 Credit ratings are obtained and monitored by the Council’s treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the review outcome is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

3.8 Other Information on the Security of Investments

3.8.1 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the council’s TM adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

3.9 Reputational aspects

3.9.1 The council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be considered when making investment decisions.

3.9.2 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020 and 2022, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest in, then surplus cash balances will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills, for example, or with other local authorities. This will reduce investment returns but will protect the principal sum.

3.10 Investment Limits

3.10.1 The revenue reserves and balances available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £53M at 31st March 2025. In order that there is no immediate pressure on available reserves in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and specified investments, such as property funds) will be £10M. A group of banks under the same ownership will be treated as a single organisation. Limits, showing in Table 4 will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

3.10.2 Table 4 –Investment Limits

	Cash limit
Any group of pooled funds under the same management	25% per manager unless under specific advice
Negotiable instruments held in broker’s nominee account	£50M per broker
Foreign countries	£10M per country

3.11 Liquidity Management

3.11.1 The Council undertakes high level cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of being forced to borrow on unfavourable terms to meet financial commitments. Limits on long-term investments are set by reference to the Council’s medium term financial plan and cash flow forecast.

The council will spread its liquid cash over at least four providers (e.g. bank accounts and MMFs) of which at least two will be UK domiciled to ensure access to cash is maintained in the event of operational difficulties at any one provider.

SECTION 4 - TREASURY MANAGEMENT PRUDENTIAL INDICATORS

4.0 The council measures and manages its exposure to risk with the following indicators.

4.1 Background

4.1.1 Typically, income (e.g. from taxes and grants) is received before it pays for its expenditure (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with CIPFA guidance.

4.1.2 During the financial year, investment balances have ranged between £36M and £99M and are currently £49M. Borrowing has ranged between £298M and £349M and is currently £328M.

4.2 Security

4.2.1 The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. The average rating of our current portfolio is A+ which is above the target.

	Target
Portfolio average credit rating	A

4.3 Liquidity

4.3.1 The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and has set a £20M minimum threshold on cash available in instant access accounts, if balances were to fall below this limit, we would consider taking short term loans which are available without given prior notice and at competitive rates.

4.4 Interest Rate Exposure

4.4.1 This indicator is set to control the exposure to interest rate risk. The upper limits are based on the one-year revenue impact of a 1% rise or fall in interest rates for existing variable rates on long term loans and assumed short term borrowing, offset by variable investments. The cost of an extra 1% per £1M is £10,000. We do not currently have any variable rate borrowing and any increase in short-term borrowing rates should be offset by an increase in short term investment income.

The liability benchmark (Table 2) has identified our borrowing need as, up to £410M by 2028/29 which could equate to an additional £12.71M in borrowing costs. The minimum borrowing need for 2025/26 has been used to set indicator limits below.

Interest rate risk indicator	**£M**
Upper limit on one-year revenue impact of a 1% **rise** in interest rates	3.1
Upper limit on one-year revenue impact of a 1% **fall** in interest rates	0.5

4.4.2 The main risk comes through the continued use of internal borrowing in place of fixed term long term debt for 2025/26. A 1% increase would equate to £10,000 for each £1M borrowed.

4.4.3 There is more exposure to an increase in interest rates than a reduction, as debt is higher than investments. A fall in interest rates of 1% would see investment income fall by about £0.48M but this would be offset by reduction in debt charges.

4.5 Maturity Structure of Borrowing

4.5.1 This indicator is set to control the Council’s exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing as set below in Table 5.

4.5.2 Table 5 – Refinancing rate risk indicator

Period	**Lower Limit %**	**Upper Limit %**
Under 12 Months	0	50
12 months and within 24 months	0	50
24 months and within 5 years	0	50
5 years and within 10 years	0	55
10 years and within 20 years	0	60
20 years and within 30 years	0	65
30 years and above	0	75

CIPFA have recently recommended that the centre of the range is consistent with the liability benchmark. As shown in Table 5a the Council has complied with the indicator but will consider this recommendation when taking new debt.

4.5.3 Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. All LOBOs are now in their call options with a risk of being called so are shown as uncertain, but as they only represent 1% of the total debt portfolio an early call would not pose a material risk in refinancing.

4.5.4 Details of our current level of debt and maturity is shown in Table 5a below. This shows that all debt is within existing levels.

4.5.5 Table 5a – Current Debt

Analysis of Loans by Maturity	Lower Limit	Upper Limit	Compliance with Limit	Outstanding 31/12/2024 £M	% of Debt
Less than 1 Year	0	50	Yes	4.80	2
Between 1 and 2 years	0	50	Yes	13.00	4
Between 2 and 5 years	0	50	Yes	39.00	13
Between 5 and 10 years	0	55	Yes	72.50	23
Between 10 and 20 years	0	60	Yes	32.65	11
Between 20 and 40 years	0	60	Yes	144.85	47
Over 40	0	75	Yes	0.00	0
Uncertain Date**	0	5	Yes	4.00	1
				310.80	**100**

4.6 **Long-term treasury management investments**

4.6.1 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury investments are shown below.

4.6.2

	Current £M	**2025/26 £M**	**2026/27 £M**	**2027/28 £M**	**2028/29 £M**
Limit on principal invested beyond year end	30	30	30	30	30

4.6.3 Long-term investments with no fixed maturity date include strategic pooled funds and REITs but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

SECTION 5 - RELATED MATTERS

5.0 The CIPFA Code requires the TM strategy to include the following related matters.

5.1 **Monitoring, Reporting and Financial Implications**

5.1.1 The S151 Officer will report to Audit Committee TM activity / performance as follows:

(a) Quarterly reporting of key prudential indicators as part of Budget Report monitoring.

(b) A mid-year review against the strategy approved for the year

(c) An outturn report on its treasury activity, no later than 30 September after the financial year end.

5.1.2 In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.

5.1.3 Investment income for 2025/26 is forecast at £2.06M based on an average portfolio of £47M at an average of 4.38%.

5.1.4 The forecast for borrowing costs in 2025/26 is £30.24M, of which £8.45M relates to the HRA. This is made up of interest on borrowing of £16.24M (based on an average debt portfolio of £436.28M at an average interest rate of 3.72% plus MRP and other costs of £10.46M. This is expected to rise to £40.76M (£11.78M HRA) by 2028/29 to accommodate the capital programme, utilisation of reserves, EFS financing and refinancing of borrowing. However, this will be subject to movement as the need for further borrowing becomes more certain.

New long-term loans taken over the period of the strategy are budgeted at an average interest rate of 5.00%. based on our advisors' forecast.

5.1.5 Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then up to 50% of the revenue savings may be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

5.2 Policy on Use of Financial Derivatives

5.2.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes uncertainty over local authorities' use of standalone financial derivatives (i.e. those not embedded in a loan or investment).

5.2.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.

Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

5.2.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

5.2.4 In line with the CIPFA code, the Council would seek and consider external advice before entering into any agreement to ensure implications are fully understood.

5.3 Markets in Financial Instruments Directive

5.3.1 The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the TM activities, the Chief Financial Officer believes this to be the most appropriate status.

5.4 Housing Revenue Account Self-Financing and Limit on Indebtedness

5.4.1 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund (GF) and HRA pools. Since then, new long-term loans borrowed are assigned to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

5.4.2 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance. This balance will be measured, and interest transferred between the GF and HRA at an agreed rate. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on investments will be borne by the GF alone. It is therefore appropriate that the GF is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards. The rate used will be based on 6-month Gilt Rate. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.

5.4.4 The HRA Business Plan supports several council strategies, including the Medium-Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan can be seen in the report being submitted to Council on 26 February 2025.

5.4.5 The HRA by default will underwrite any programmes that are unable to self-fund.

5.5 OTHER OPTIONS CONSIDERED

5.5.1 The MHCLG Guidance and the CIPFA Code do not prescribe any TM strategy for local authorities to adopt. The S151 Officer, having consulted with relevant officers and members believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Alternative strategies, with their financial and risk management implications, are listed below.

5.5.2

Options	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

	TREASURY MANAGEMENT PRACTICES
1.	The Council has adopted and has implemented the key principles of the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. This, together with the other arrangements detailed in the operational manual, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if necessary, report upon the effectiveness of these arrangements.
	TMP 1 - RISK MANAGEMENT GENERAL STATEMENT
2.	The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment. The Section 151 Officer will design, implement, and monitor all arrangements for the identification, management, and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation’s objectives in this respect, all in accordance with the procedures set out in TMP 6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the operational manual.
	Credit and counterparty risk management
3.	The Council will ensure its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques*. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter other financing or derivative arrangements. The Authority’s credit and counterparty policies set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the Authority’s ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.
	Liquidity risk management
4.	The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft, or standby facilities to always enable it to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.
	Interest rate risk management
5.	The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*. It will achieve this by the prudent use of its approved instruments, methods and

	techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications. The Council will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.
	Exchange rate risk management
6.	The Council will manage its exposure to fluctuations in exchange rates to minimise any detrimental impact on its budgeted income/expenditure levels.
	Inflation risk management
7.	The Council will keep under review the sensitivity of its treasury management assets and liabilities to inflation and will seek to manage the risk accordingly in the context of its wider exposure to inflation.
	Refinancing risk management
8.	The Council will ensure that its borrowing, private financing, and partnership arrangements are negotiated, structured, and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time. It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.
	Legal and regulatory risk management
9.	The Council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly regarding duty of care and fees charged. The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.
	Operational risk, including fraud, error, and corruption
10.	The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption, or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.
	Priced risk management
11.	The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of

	the principal sum it invests and will accordingly seek to protect itself from the effects of such fluctuations.
	TMP 2 - PERFORMANCE MEASUREMENT
12.	The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's business or service objectives and performance will be measured against relevant benchmarks.
	TMP 3 - DECISION-MAKING AND ANALYSIS
13.	The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered at the time.
	TMP 4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES
14.	The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its annual Investments Strategy, and within the limits and parameters defined in TMP1 Risk management. The Council has reviewed its classification with financial institutions under MIFID II and will set out in its annual Investment Strategy those organisations with which it is registered as a professional client.
	TMP 5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS
15.	The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly regarding the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function. If it is intended, because of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated. The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also always ensure that those engaged in treasury management will follow the policies and procedures set out. The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The delegations to the Section 151 Officer in respect of treasury management are set out in the Council's Financial Regulations and Scheme of Delegation for Financial Management. The Section 151 Officer will fulfil all such responsibilities in accordance with the

Council’s policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.

TMP 6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

16. The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows:

(a) A mid-year review against the strategy approved for the year.

(b) An outturn report on its treasury activity, no later than 30 September after the financial year end.

In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring

The Council’s Governance Committee has responsibility for the scrutiny of treasury management policies and practices.

TMP 7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

17. The Section 151 Officer will prepare, and full Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, *TMP 2 Performance Measurement, and TMP 4 Approved instruments, methods and techniques.* The Section 151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP 6 Reporting requirements and management information arrangements. The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP 8 - CASH AND CASH FLOW MANAGEMENT

18. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with *TMP1 Liquidity risk management*, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate).

TMP 9 – MONEY LAUNDERING

19. The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and

	reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Council's Anti-Money Laundering Policy.
	TMP 10 - TRAINING AND QUALIFICATIONS
20.	The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills. The responsible officer will recommend and implement the necessary arrangements. The responsible officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
	TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS
21.	The Council recognises that responsibility for treasury management decisions always remains with the Council. However, the Council recognises that there may be value in employing external providers of treasury management services, to acquire access to specialist skills and resources. When it employs such service providers, it will do so following a full evaluation of the costs and benefits and will also ensure that the terms of their appointment are properly agreed and documented and subjected to regular review. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer.
	TMP 12 - CORPORATE GOVERNANCE
22.	The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability. The Council has adopted and has implemented the key principles of the Treasury Management Code of Practice. This, together with the other governance practices, is considered vital to the achievement of proper corporate governance in treasury management. Section 151 Officer will monitor and, if necessary, report the effectiveness of these arrangements.

Appendix 3

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1. In accordance with CIPFA's Code of Practice for Treasury Management in the Public Services the Council has regard to the key recommendations when determining the current strategy.

1.2. Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management: -

- A treasury management policy statement, stating the policies, objectives, and approach to risk management of its treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.4. Audit Committee will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.5. The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1. The Council defines its treasury management activities as:

> “*The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

2.2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

ECONOMIC AND INTEREST OUTLOOK

The economic background and interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

Economic Background

The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26. The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.

The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).

ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

The US Federal Reserve has continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an (upwardly revised) annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Credit outlook

Credit default swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the authority's treasury adviser.

Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2024)

The Authority's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 4.38%, and that new long-term loans will be borrowed at an average rate of 5.00%.

The economic and interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2024 is detailed below and is based on the following Underlying Assumptions:

Underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.
- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.
- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.
- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.

- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.
- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Forecast:

- The In line with our forecast, Bank Rate was held at 4.75% in December.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.
- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.
- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

Appendix 5

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AND PROJECTIONS

	31-Mar-24 Actual £M	31-Mar-24 Average %	31-Dec-24 Actual £M	31-Dec-24 Average %	31-Mar-25 Forecast £M	31-Mar-25 Forecast %
Long Term Borrowing						
Public Works Loan	288.59	3.47	306.80	3.50	413.03	2.96
LOBO Loans from Banks	4.00	4.86	4.00	4.86	4.00	4.85
	292.59	**3.58**	**310.80**	**3.60**	**417.03**	**3.00**
Short Term Borrowing						
Other Local Authorities	20.00	5.79	17.00	5.29	2.00	5.79
Total External Borrowing	**312.59**	**2.98**	**327.80**	**3.64**	**419.03**	**3.11**
Other Long Term Liabilities						
PFI Schemes	41.08	9.82	41.08	9.56	37.11	9.82
Deferred Debt Charges (HCC)	12.37	4.99	12.37	3.27	12.01	4.99
Total Gross External Debt	**366.04**	**3.97**	**381.25**	**4.08**	**468.15**	**3.97**
Investments:						
Managed In-House						
Cash (Instant access)	(7.83)	5.27	(21.30)	4.74	(20.00)	5.40
Long Term Bonds	(1.03)	5.27	(1.02)	5.27	(1.00)	5.27
Managed Externally						
Pooled Funds (CCLA) & Shares	(27.00)	4.76	(27.00)	4.65	(27.00)	3.00
Total Investments	**(35.86)**	**4.78**	**(49.32)**	**4.68**	**(48.00)**	**4.05**
Net Debt	**330.18**		**331.93**		**420.15**	

Appendix 6

PROJECTED MOVEMENT ON CAPITAL FINANCING REQUIREMENT

Capital Financing Requirement	**31-Mar-24** **Actual** **£M**	**31-Mar-25** **Forecast** **£M**	**31-Mar-26** **Forecast** **£M**	**31-Mar-27** **Forecast** **£M**	**31-Mar-28** **Forecast** **£M**	**31-Mar-29** **Forecast** **£M**
Balance Brought forward	342.57	345.36	409.71	520.32	557.83	556.21
New Borrowing	15.14	78.16	125.99	56.12	18.40	11.82
MRP	(8.69)	(9.47)	(11.53)	(15.04)	(15.89)	(15.96)
Movement in Other Liabilities	(3.66)	(4.34)	(3.85)	(3.57)	(4.13)	(4.97)
Total General Fund Debt	**345.36**	**409.71**	**520.32**	**557.83**	**556.21**	**547.10**
HRA	182.05	205.65	248.70	267.92	286.29	301.27
Total CFR	**527.41**	**615.36**	**769.02**	**825.75**	**842.50**	**848.37**
Estimated Debt	366.05	468.15	534.27	586.19	595.57	606.10
Under / (Over) Borrowed	**161.36**	**147.21**	**234.75**	**239.56**	**246.93**	**242.27**

Capital Financing Requirement	**31-Mar-24** **Actual** **£M**	**31-Mar-25** **Forecast** **£M**	**31-Mar-26** **Forecast** **£M**	**31-Mar-27** **Forecast** **£M**	**31-Mar-28** **Forecast** **£M**	**31-Mar-29** **Forecast** **£M**
Balance Brought forward	342.57	345.36	409.71	520.32	557.83	556.21
New Capital Borrowing	15.14	78.16	125.99	56.12	18.40	11.82
MRP	(8.69)	(9.47)	(11.53)	(15.04)	(15.89)	(15.96)
Movement in Other Liabilities	(3.66)	(4.34)	(3.85)	(3.57)	(4.13)	(4.97)
Total General Fund Debt	**345.36**	**409.71**	**520.32**	**557.83**	**556.21**	**547.10**
HRA	182.05	205.65	248.70	267.92	286.29	301.27
Total CFR	**527.41**	**615.36**	**769.02**	**825.75**	**842.50**	**848.37**
Less Other Debt Liabilities*	(53.45)	(49.12)	(45.27)	(41.69)	(37.57)	(32.60)
Loans CFR	**473.96**	**566.24**	**723.75**	**784.06**	**804.93**	**815.77**

DECISION-MAKER:	**AUDIT COMMITTEE**
SUBJECT:	**ANNUAL RISK MANAGEMENT REPORT 2024**
DATE OF DECISION:	**12th FEBRUARY 2025**
REPORT OF:	**DIRECTOR OF LEGAL & GOVERNANCE**

CONTACT DETAILS				
Executive Director	**Title**	**Executive Director Enabling Services**		
	Name:	**Mel Creighton**	**Tel:**	**023 8083 3825**
	E-mail	**mel.creighton@southampton.gov.uk**		
Author:	**Title**	**Risk & Insurance Manager**		
	Name:	**Peter Rogers**	**Tel:**	**023 8083 2835**
	E-mail	**peter.rogers@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY

Appendix A ‘Summary - Strategic Risks’ is not for publication by virtue of category 5 paragraph 10.4 of the Access to Information Procedure Rules as set out in the Council’s Constitution. The information is exempt from publication as it includes information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

BRIEF SUMMARY

The Annual Risk Management Report (Appendix 1) is intended to provide assurance that the council has in place effective risk management arrangements and that key risks are being managed and monitored appropriately.

RECOMMENDATIONS:

	(i)	The Annual Risk Management Report 2024 (Appendix 1) and ‘Summary - Strategic Risks End Q3 2024-25’ (Appendix 2) be noted

REASONS FOR REPORT RECOMMENDATIONS

1.	This report is presented to the Audit Committee as the member body responsible for providing independent assurance on the adequacy of the risk management framework and the internal control and reporting environment
2.	The Audit Committee also has responsibility for oversight of and provision of assurance on the effective development and operation of risk management in the council.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3	No alternative options have been considered

DETAIL (Including consultation carried out)

4.	The Annual Risk Management Report is intended to provide assurance to the Audit Committee that the council has in place effective risk management arrangements and that key risks are being managed and monitored appropriately.

5. The report is split into two sections. Section A, that outlines the framework and overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk, and Section B that provides a summary of the risk management activities that have been undertaken within the last 12-month period.

6. Also included is a summary of the council’s Strategic Risks (Appendix 2), which are reviewed and updated on a quarterly basis and then presented to the Management Board for oversight and review.

7. The Annual Risk Management Report 2024 report was presented to and reviewed by the Management Board on 29th January 2025.

RESOURCE IMPLICATIONS

Capital/Revenue

8. None

Property/Other

9. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

10. The Accounts and Audit (England) Regulations 2015 Part 2 Section 3A(c) require the Council to have in place a ‘sound system of internal control which includes effective arrangements for the management of risk’

Other Legal Implications:

11. None

RISK MANAGEMENT IMPLICATIONS

12. The appendices to this report are intended to provide the Audit Committee with assurance regarding the arrangements in place to manage risk.

POLICY FRAMEWORK IMPLICATIONS

13. None

KEY DECISION?	**No**
WARDS/COMMUNITIES AFFECTED:	Not Applicable

SUPPORTING DOCUMENTATION

Appendices

1. Annual Risk Management Report 2024
2. Summary - Strategic Risks End Q3 2024-25 (Confidential Item)

Documents In Members’ Rooms

1. Not Applicable

Equality Impact Assessment

Do the implications/subject of the report require an Equality and	**No**

<table>
<tr><td colspan="4">**Safety Impact Assessment (ESIA) to be carried out.**</td><td></td></tr>
<tr><td colspan="5">**Data Protection Impact Assessment**</td></tr>
<tr><td colspan="4">**Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.**</td><td>**No**</td></tr>
<tr><td colspan="5">**Other Background Documents**
Other Background documents available for inspection at:</td></tr>
<tr><td colspan="2">**Title of Background Paper(s)**</td><td colspan="3">**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**</td></tr>
<tr><td>1.</td><td colspan="2">Not Applicable</td><td colspan="2"></td></tr>
</table>

Appendix 1

RISK MANAGEMENT
ANNUAL REPORT 2024

Risk: ‘the effect of uncertainty on objectives’

January 2025

SOUTHAMPTON
CITY COUNCIL

Risk Management – Annual Report 2024

The purpose of this report is to provide assurance to the Audit Committee that the council has in place effective risk management arrangements and that key risks are being managed and monitored appropriately. This reflects the responsibilities of the Committee as set out in the Terms of Reference:

- *"To provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment…";*
- *"To be satisfied and provide assurance that appropriate action is being taken on risk and internal control related issues…"*

This report is split into two main sections – ***Section A*** *which provides a summary of the framework and overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk and* ***Section B*** *which summarises the range of risk management activities that have been undertaken within the last 12-month period.*

ROLES AND RESPONSIBILITIES

The council's Risk and Insurance Service, which part of Legal & Governance with the Enabling Services Directorate, is responsible for:

- Facilitating the continuing development of the council's risk management arrangements including developing and providing support, advice and guidance.
- Supporting services in the management of operational and strategic risk.
- Facilitating and supporting the Management Board in respect of the identification, management, and review of the council's key strategic risks.
- Arranging appropriate risk financing measures and providing advice and guidance on the extent of insurance or self-insurance arrangements.
- Arranging the placement of insurance cover in respect of insurable risks where it is economic to do so.

SECTION A – THE RISK MANAGEMENT FRAMEWORK

The risk management framework comprises the overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk. The key components of this framework are:

▪ Risk Management Policy

This provides an overview of the framework, arrangements and responsibilities for managing risk within and across the Council and is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. This policy, which is published on the council intranet, is subject to annual review and update as necessary.

▪ Strategic Risk Register

The Strategic Risk Register is a key document in terms of identifying, assessing, and managing the council's key strategic risks. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. They reflect a combination of organisational 'resilience' and 'governance' type risks together with risks that are more transient in nature The Strategic Risk Register is updated and reviewed on a quarterly basis by the council Management Board who also consider any new or emerging risks.

▪ Directorate Risk Registers

Directorate Risk Registers recognise that, in addition to the council's Strategic Risks, there are very likely to be other significant risks within individual directorates relating to the services, actions or activities being delivered or undertaken. Such risks, although significant in themselves, may not however be considered as cross-cutting or be of such significance that they would be considered to be a 'strategic risk' that requires Management Board oversight. The risks that appear in a Directorate Risk Register will typically be aligned with the Directorate Business Plan in terms of the potential impact on the delivery of the key service priorities and objectives.

- **Guidance and information**

A range of information and advice is published on the intranet as well as an e-Learning Risk Management training module together with a 'Risk Management Essentials' guidance document available to all staff via the council's Learning & Development portal.

- **Corporate Report Template**

The council's standard corporate report template, briefing template include a 'Risk Management Implications' section. This section requires a report author to highlight any significant risks associated with the decision and provide the decision maker with assurance the appropriate actions/controls are in place to mitigate the risk. It should also mention what consultation has been carried out in preparation (both internal and external) and report on any responses received and an analysis (both positive and negative) of those reports.

- **Internal Audit**

Internal audit plays a vital role in advising the council that arrangements in relation to governance, risk and internal control are in place and operating effectively. Response to internal audit activity should lead to the strengthening of the internal control environment. The annual 'Internal Audit Plan' is informed by the council's Strategic Risks together with discussions with individual Executive Directors and the Management Board.

- **Project and Programme Risk Management**

The need to identify and manage risk runs throughout the project and programme management process with 'Risks, Assumptions, Issues, Dependencies ('RAID') Logs' embedded as part of project management governance. Template documents and associated guidance is available to assist both project managers and project sponsors/boards in understanding the importance of understanding and managing risk.

- **Partnerships**

All key service delivery partnerships (such as the Highways Service Partnership with Balfour Beatty Living Places) and other major contracts have risk registers in place which are jointly reviewed with the supplier and include any 'shared risks'. There is also guidance on the intranet in respect of managing risk in respect of non-commercial partnership working.

- **Key Financial Risks**

Financial risks, in terms of the 'robustness of estimates' and 'adequacy of proposed financial reserves' are captured in a 'Key Financial Risks' document. This document is managed and reviewed by Finance and included on a quarterly basis as part of the financial position update report.

- **Business Planning**

The council undertakes an annual business planning and budgeting process with all Service Business plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. Significant risks that may threaten or adversely impact delivery of their key priorities and outcomes would be expected to be considered for inclusion in the Directorate Risk Register.

- **Fraud Risk Management**

An Anti-Fraud, Bribery and Corruption Policy is published on the intranet and applies to all employees, elected members and others who work for or on behalf of the Council. Internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets.

- **Operational Risk Management**

The management of 'day to day' or 'operational risk' is the responsibility of individual service areas with support and guidance being provided by Risk and Insurance Services as required including, where necessary, access to specialist advice.

SECTION B - RISK MANAGEMENT ACTIONS: 2024

- **Quarterly reviews of the Strategic Risk Register**

The council's strategic risks were reviewed by the Management Board in January (End Q3 - 2023/24), April (End Q4 – 2023/24), July (End Q1 - 2024/25), October (End Q2 - 2024-25), January (End Q3 - 2024/25) noting that, from the End Q2 it now forms part of a wider 'Quarterly Performance Review' which is presented by the Director Legal & Governance to the Management Board.

For each meeting, the Board receives a report/update in respect of the status of the council's Strategic Risks highlighting any issues or areas of concern together with information or commentary on any new or emerging risks for discussion.

See **Appendix A** which is a summary of the council's Strategic Risks at End Q3 2024-25.

- **Development of Directorate Risk Registers**

The process of having in place formal Directorate Risk Registers was agreed by the Management Board in late 2023 and all Directorates had developed a first draft of their risk registers by the end of Q4 23-24. Ongoing development and regular updating of the risk registers has however been inconsistent and was impacted by the organisational restructure together with other competing urgent priorities. Risk Management was however a standing item on both the Enabling Services Leadership Team meetings and the Resident Services Leadership Team meetings with the Risk & Insurance Manager invited to attend on at least a quarterly basis.

In order to support and streamline the process an on-line 'Risk Tracker' document has been created in SharePoint which allows for all directorate risks to be held in one place, in a consistent format and for officers to easily access and update their risks. It will also allow for greater transparency/visibility across the directorates.

- **Corporate Insurance Tender (Risk Financing)**

The council's current corporate insurance programme expires on the 31 March 2025 and therefore a competitive tender exercise is being undertaken for the placement of a new insurance programme from 1st April 2025. This has, and continues to be, a significant and time-consuming piece of work that commenced shortly after the April 2024 insurance renewal and is being undertaken in consultation with the council's insurance broker and with the council's Contracting & Procurement Services. A range of actions were undertaken to ensure that the most appropriate and cost-effective insurance programme is put in place from 1st April 2025. The tender responses are currently being evaluated with the new contract(s) expected to be awarded by the end of February.

- **Representation on internal management boards and groups**

The Risk & Insurance Manager is a member of the following Management Boards and Groups to provide advice and guidance on risk and insurance issues:

- Information Governance Board
- Health & Safety Board
- Fire Safety Programme Board
- Emergency Preparedness, Resilience and Response Board
- SCC Silver Command Emergencies Group
- Housing Quality Assurance Board

Property - Fire & Security Reviews

As 2024-25 is the final year of the current insurance agreement our property insurers only undertook a very limited number of fire and security surveys - Glen Lee (vacant property), City Depot and Tudor House Museum. The risk & Insurance Team are working with the relevant officers within the services in terms of ensuring that the required loss control actions are implemented within the stipulated timescales and liaising with the insurer/underwriter as necessary.

Solent Unitaries Insurance Group

Peer group meetings were held with officers from Portsmouth City Council, Isle of Wight Council and Bournemouth, Christchurch & Poole Council on a quarterly basis to share and discuss risk and insurance issues. The SCC Risk & Insurance Manager chaired these meetings which covered a range of topics including:

- Insurance market insight
- Insurance programmes
- Renewal terms
- Current/future underwriting requirements
- Insurance obligations/options re refurbishment works to existing premises
- Motor risks
- New or emerging claim trends

Other

A range of other support, advice and guidance was provided including:

- General risk management and insurance advice and guidance to service areas.
- Advise on the extent and scope of the insurance cover in place and, where required, arranging extensions of cover or arranging standalone cover if the current programme / insurers were not prepared to cover the risk.
- Advice and guidance to Procurement and Service Managers on proposed insurance and indemnity clauses and suggested limits of indemnity on a diverse range of contracts and other agreements.
- Arranging for a reminder to be issued to all staff that council vehicles (and those on hire to the council) must only be used on the business of the council and must not be used for any other purpose.

RISK MANAGEMENT PRIORITIES 2025

[**Note**: The following may need to be reprioritised subject to the business need]

Select and embed the new corporate insurance programme

The new corporate insurance programme will commence on 1st April 2025 and, in addition to the pre contract mobilisation period, it will be necessary to work with both the appointed insurer(s) and service areas to ensure that any new cover conditions or requirements are understood and are in place or actioned as necessary. This will include continuing to liaise with Corporate Estates & Assets in terms of reinstating a risk-based property insurance valuation programme which was paused in 2024.

- **Insurance Claims Analysis / Trends**

Whilst some information is shared with service areas further work will be undertaken to explore what insurance claims loss data may be useful to provide to key service areas in terms of helping to inform their priorities and/or working practices.

- **Ongoing development of Directorate Risk Registers**

The newly developed ‘Risk Tracker’ document will, subject to being piloted with Enabling Services, be rolled out across the directorates. This will provide an opportunity to refresh, relaunch and remind Directorate Management Teams of the purpose and approach to managing directorate risks and provide the opportunity to discuss any Risk Management training needs.

Further work is required to ensure that, where appropriate, directorate risks are aligned with those risks identified within the Directorate Business Plan.

- **Data Validation**

The service will look to work with Internal Audit in terms of periodically using their IDEA data matching software tool to ensure that the property and motor information provided to insurers remains consistent with the information that is held internally by service areas within the council. The IDEA software tool helps identify and match data across multiple sources.

- **Risk Management Policy and Guidance**

The current Risk Management Policy in for the period 2022/23 to 2024/25 and is therefore due for a review, approval and reissue. It is intended that the policy review is undertaken in consultation with the new insurer(s) utilising the ‘free’ risk management consultancy days that are provided as part of their wider service offering. Other risk management guidance and information will then be reviewed and updated as required.

For further information please contact Peter Rogers, Risk & Insurance Manager 023 8083 2835 or insurance@southampton.gov.uk

Agenda Item 10

by virtue of paragraph number 5 of the Council's Access to information Procedure Rules

Appendix 2

Document is Confidential