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FINANCIAL FOREWORD

1. Financial Statements

In preparing its final accounts the Council is required, by law, to produce and publish a number of accounting statements. Supplementary notes are attached to each statement where further explanation is required. The statements are:

- *Consolidated Revenue Account* p10-16
This statement brings together the income and expenditure of all the services provided by the Council, including the HRA but excluding the Collection Fund.
- *Housing Revenue Account (HRA)* p17-21
This account summarises the transactions relating to the provision, maintenance and sales of Council houses and flats.
- *Council Tax Collection Fund Revenue Account* p22-24
The statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.
- *Consolidated Balance Sheet* p25-37
This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2004.
- *Statement of Total Movement of Reserves* p38-40
The statement brings together all the gains, losses and movements in the year of revenue and capital reserves.
- *Cash Flow Statement* p41-43
This summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes.
- *Trust and Other Funds* p44-45
This statement shows receipts and payments of funds for which the Council acts as trustee.

2. Financial Summary

The Statement of Accounts brings together all the financial activities of the Council for the year. It summarises the revenue income and expenditure in providing services and shows how it was financed from sources such as Council Tax, Government Grants and Housing Rents. The statements have been produced in accordance with the Best Value Accounting Code of Practice, which came into effect from 1st April 2000.

The Council undertakes a number of major one-off capital projects that create an asset that has a life beyond one year. Expenditure on capital projects is financed mainly from a mix of loans, capital receipts, contributions and revenue. In addition the Council has three new schools built through Private Finance Initiatives (PFI) schemes, (see [page 5](#), note 12 for further details).

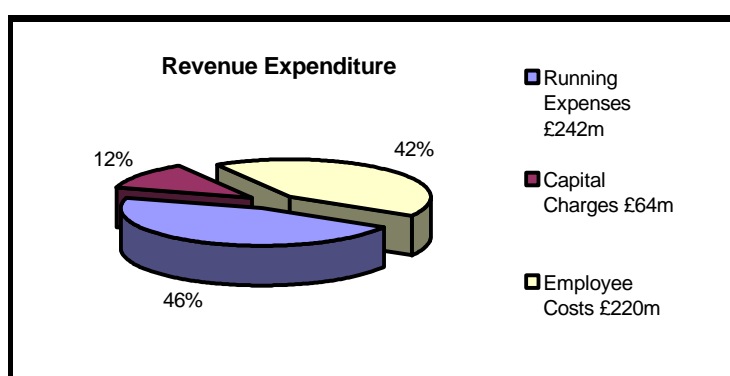
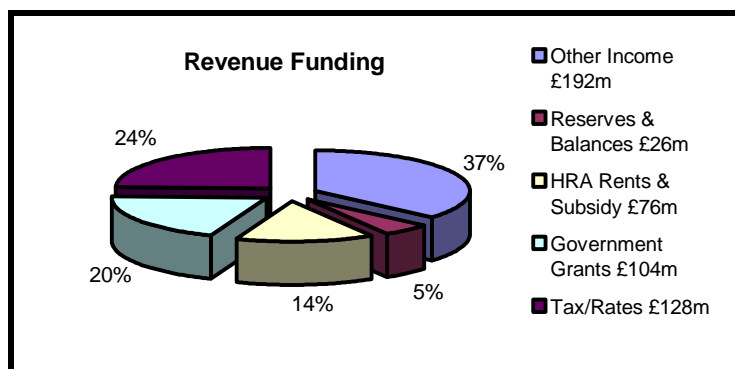
a) Revenue Expenditure and Income

The total “day to day” net expenditure on providing services was £231 Million. This was £1.5 Million less than was anticipated when elected members approved the 2003/04 budgets. The principal reasons for this were: underspends on portfolios; a one off underspend on the provision of the Pay Review; lower Capital Financing Costs and Contingency not needed. This was partly offset by additional Direct Revenue Financing of Capital Expenditure.

The net expenditure was financed mainly by, Government Grants and Council Tax. The balance of reserves was £13.2 Million at 31 March 2004.

The following charts show the main sources of Revenue Income and Expenditure:

FINANCIAL FOREWORD



Full details of the Consolidated Revenue Account can be found on [page 10](#).

b) Expenditure on Capital Projects

In 2003/04 the Council spent £50 Million on capital projects. Some of the major developments were:

- Refurbishment of Council Dwellings
- Charlotte Place Signalisation
- Improvements to Schools
- New Multi Storey Car Park
- National Smartcard Project

This was almost £5.1 Million less than the approved budget, principally due to slippage on expenditure, which will now be incurred in 2004/05.

The Council received Government approval to finance capital expenditure from borrowing of £13.9 Million in the year. The other principal sources of financing were Major Repairs Reserve (£12.1 Million), Contributions (£4.9 Million), Capital Grants (£9.0 Million) and Capital Receipts (£8.9 Million).

A more detailed analysis of capital spending plus sources of finance is shown on [pages 26-27](#).

c) Issues

The main issue affecting the accounts preparation in 2003/04 was the introduction of FRS17, consolidation of defined Pension Scheme assets/liabilities into the accounts (see [pages 5-6](#) for further details).

STATEMENT OF ACCOUNTING PRINCIPLES

1. General

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting.

2. Accrual Accounting

The principle whereby expenditure and income is matched to the year it relates is applied wherever practicably possible throughout the accounts. At the year-end accruals are established for capital and revenue to more accurately reflect the true cost of the services in the year.

The financing of capital expenditure is on a cash basis and therefore it is important that the actual cash spend on capital schemes is controlled.

3. Reserves and Provisions

Reserves are established by amounts set aside from surpluses and are used as a means of financing future expenditure. Expenditure should not be charged directly to a reserve.

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

The Reserves and Provisions are explained in more detail in the Notes to the Consolidated Balance Sheet on [pages 26 to 37](#).

4. Fixed Assets

The Code of Practice requires that services should reflect the cost of using assets in their running costs. This is achieved by valuing all the assets which are owned by the Council and establishing a yearly rental. The basis of valuation is dependent on the type of asset. The categories are:

a) Operational

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

b) Non-Operational

These are assets owned by the Council but not used in the direct delivery of services and are occupied by third parties to provide services on the Council's behalf. They are valued on Open Market Value. For investment properties the rental is based on an assumed commercial value.

c) Infrastructure and Community Assets

These are included in the balance sheet at historical cost net of depreciation.

As recommended by CIPFA the Council's policy is that assets with a value of less than £5,000 do not attract an Asset Rental.

STATEMENT OF ACCOUNTING PRINCIPLES

5. Deferred Charges and Government Grants

A deferred charge, although treated as capital for financing, does not generate an asset that has a value to the Council. As a result the expenditure, along with any Government Grant received, is now generally charged to service accounts in the year in which the expenditure is incurred.

6. Sale of Fixed Assets

Capital receipts arise when the Council disposes of assets, if at the time of the disposal, expenditure on the assets would have been expenditure for capital purposes.

Capital receipts in respect of the Housing Revenue Account are divided, as required by law, between a reserved part, which must be set aside as a provision for credit liabilities, and a usable balance, which is available to the Council to finance future capital expenditure. Deferred capital receipts from the sales of council houses reflect the amount of mortgage principal outstanding on 31st March. The summarised movements of capital receipts are on [page 35](#).

7. Loans and Investment

The Council's borrowing is split between Long Term for loans of one year and longer and Short Term for loans of less than one year. The crucial contrast with a private organisation is that an authority's debt, whether short-term or long-term, is secured, not on its fixed assets, but on its revenues. A lender to a local authority enjoys the security of knowing that in the last resort, the authority would be obliged to raise revenues in order to repay outstanding debts. Investments arise on a short term basis throughout the year as a result of movements in cash flow. These are shown in the Accounts at cost or Market Value.

8. Debtors and Creditors

Both revenue and capital accounts are prepared on an income and expenditure basis. Provision is therefore made for goods and services supplied to, or by, the Council, but not paid for at 31st March.

There are some exceptions to this rule mainly relating to some periodic payments, but as the number of payments in each year is constant they do not distort the accounts.

9. Stocks and Work in Progress

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

- For 2003/04 the Council's Central Stores stock has been valued on an "Average Cost" basis as recommended in SSAP 9.
- Housing Repairs "Schedule of Rates" work is valued at cost plus overheads and profit.

Where there is internal work in progress it is cancelled out when the accounts are consolidated.

10. Overheads

The current accounting policy for overheads is that all services should bear an equitable proportion of the overheads of the Council. Support Service costs are recharged to services on a variety of bases e.g. Agreed Annual charge, Time Allocation, Unit Rates. The split between Purchaser (Portfolios) and Provider (Staff Divisions) means that most service areas rely on internal recharging to correctly attribute costs. Most services have agreed annual charges.

STATEMENT OF ACCOUNTING PRINCIPLES

11. Regeneration Budgets

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

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

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

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

12. Private Finance Initiative in Education

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 Private Finance Initiative (PFI) whereby a consortium of private sector companies, know as Pyramid Schools (Southampton) Limited, designed, built, financed and are now operating the schools.

The consortium provides building related services such as cleaning, care-taking and repairs, but teaching and curriculum related staff continue to be employed directly by the City Council. The City Council started to pay an annual fee to the consortium following the completion of the first school during the 2003/04 financial year. The fee, know as the 'Unitary Charge', covers both the running costs of the school buildings and the cost of building the schools.

The construction stage of the project for all 3 schools is now complete, and all 3 schools are open.

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

13. Council Companies

Under Local Government and Housing Act 1989 part V, the Council is required to consolidate into its accounts any Company in which it has "arms length" control. There are no trading companies in which the Council has an interest, but an interest is held in Southampton City Leisure Limited, which has been dormant since 31st March 2001.

14. Trust Funds

As required by the Accounting Code of Practice, all trust funds, where the Council is the sole trustee, have been consolidated into the accounts of the Council. Details of the Trust Funds can be found on [page 44-45](#).

15. Pensions

The authority makes payment into a fund managed by Hampshire County Council. The Funds actuary based on triennial valuations determines the contribution amount. In addition Southampton City Council is responsible for all pension payments relating to added years benefits and gratuity pensions it has awarded.

STATEMENT OF ACCOUNTING PRINCIPLES

The requirements of FRS17 have been fully incorporated into the 2003/04 Accounts for the first time. This represents a change to those policies applied in prior years. Previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payment fell due to the pensioners for which we were directly responsible. The new policy reflects the commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund. The change has had the following effects on the results of prior and current periods:

- The overall amount to be met from government grants and local taxation has remained unchanged, but the costs for individual services are £0.67M higher (£0.92M in 2002/03) after the replacement of employer's contribution by current service costs, and Net Operating Expenditure is £8.01M higher (£3.37M higher in 2002/03) than it would otherwise have been.
- The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by £131.7M in 2003/04 and by £143.4M in 2002/03.

For further information see [pages 14-15 & 35-37](#).

16. Leases

Operating leases are accounted for net of benefits received or receivable. This is in accordance with the 1998 Accounting Code of Practice.

17. Redemption of debt

The minimum revenue provision for the redemption of debt is in accordance with statute.

18. Interest Charges

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

19. Depreciation

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

Other Land and Buildings - All fixed assets identified as having a useful economic life of less than 50 years, are depreciated on a straight-line basis over the remaining years.

Vehicles, plant and equipment - depreciation is applied on a straight-line basis over the useful life of the asset.

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

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

20. Impairment

Where a loss in value occurs as a result of physical damage, obsolescence or other impairment and the value falls below the balance sheet value, an appropriate adjustment is made.

STATEMENT OF ACCOUNTING RESPONSIBILITY

1. 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 Chief Financial Officer.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve Statement of Accounts.

2. The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC "Code of Practice on Local Authority Accounting in Great Britain", is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2004.

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

- Selecting suitable accounting policies and then applying them consistently.
- Making judgements and estimates that are reasonable and prudent.
- Complying with the Code of Practice (any significant non-compliance being fully disclosed).
- Keeping proper accounting records, which are up to date.
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Financial Officer should sign and date the Statement of Accounts, stating that it presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31st March 2004.

3. Certificate

I hereby certify that the Statement of Accounts is a true and correct record of the financial transactions of Southampton City Council for the year 2003/04.

Signed

Date 14th July 2004

T. O'Rourke

Chief Financial Officer

STATEMENT OF INTERNAL CONTROL

Southampton City Council acknowledges the responsibility for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded through an effective system of internal control and proper accounting procedures.

In discharging this accountability, Members and senior officers are responsible for putting in place proper arrangements for management of the Council's affairs and the stewardship of resources.

Any system of internal control can only provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal control within the Council is based on a framework of regular management information, financial regulations, administrative procedures, management supervision and a system of delegation and accountability. The system includes:-

- Comprehensive business planning and risk management systems;
- Comprehensive budgeting and reporting systems;
- Regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- A control self assessment process for the fundamental financial systems;
- Setting targets to measure performance, including financial performance;
- The preparation of monthly reports which indicates performance against forecasts;
- Clearly defined capital expenditure guidelines.

The Council operates an Internal Audit function whose role is to independently review, appraise and report on systems of control throughout the Council and the extent of compliance with procedures, policies, regulations and legislation providing assurance to the Chief Financial Officer, Members and management that their agreed policies, procedures and controls are being carried out and the arrangements are adequate and operating effectively.

The Internal Audit Manager reports annually to Standards & Governance Committee, but has the authority to independently report at any time to the Chief Executive, Chief Financial Officer, Officers and Members.

The adequacy and effectiveness of the system of internal financial control is informed by:-

- The work of Members/Officers within the Council;
- The work of the internal auditors as described above;
- Reports received from service review agencies or inspectorates, and
- The external auditors in their annual audit letter.

There are a number of new IT system developments, and managers must continue to be vigilant to ensure that their internal control arrangements are not compromised during the development period. The control self-assessment process currently in place for the fundamental financial systems will be extended to include other service areas.

2003/2004 saw full implementation of the new financial management system, Agresso, and Officers encountered problems with some reconciliations, particularly in respect of payroll and creditors, which were unable to be performed as scheduled. These reconciliations have now been brought up to date.

STATEMENT OF INTERNAL CONTROL

During 2003/2004 technical difficulties occurred with the creditor invoice data imaging system. This meant that the system was unavailable for three months, a backlog occurred, and it was difficult to locate invoices (i.e the prime documents which support entries in the financial accounts). This backlog has now been cleared.

Also during 2003/2004 it became apparent that the existing car parking income system was not providing the expected standard of internal control, and recommendations have been made to replace that system.

In addition the Audit Commission commented that the Council's risk management arrangements were not yet fully embedded. The corporate and divisional risk registers have now been produced and the risk owners continue to review and evaluate the strength of the present management arrangements. Any necessary action points are included in the respective Divisional Business Plans. In future the corporate risk register will form part of the annual Internal Audit & Risk Management report to the Standards & Governance Committee.

Signed
B. Roynon
(Chief Executive)

Signed
D. Harryman
(Mayor)

CONSOLIDATED REVENUE ACCOUNT

This statement brings together the income and expenditure of all the services provided by the Council, and shows the gross expenditure, income and net expenditure analysed by Portfolios and how it was financed. The summary includes recharges made between portfolios including the reallocation of support services costs.

<u>2002/03</u>		<u>Notes</u>	<u>2003/04</u>		<u>Net Expenditure</u> £000's
<u>Net Expenditure</u> £000's	<u>Net Portfolio Expenditure</u>		<u>Gross Expenditure</u> £000's	<u>Income</u> £000's	
	Continuing Services				
4,614	Central Services to the Public		80,567	(75,011)	5,556
41,480	Cultural, Environmental and Planning Services		58,315	(13,532)	44,783
112,196	Education Services		162,417	(33,670)	128,747
6,837	Highways, Roads and Transport Services		18,950	(8,804)	10,146
29,864	Housing Services		96,740	(76,177)	20,563
51,740	Social Services		98,727	(38,755)	59,972
6,898	Corporate and Democratic Core		6,977	(112)	6,865
2,878	Non Distributable Costs		3,050	(31)	3,019
256,507	Net Cost of Services		525,743	(246,092)	279,651
(51,196)	Asset Management Revenue Account	9			(37,573)
6,401	Contributions to Other Local Authorities				6,732
(1,330)	Interest and Investment Income				(1,046)
1,960	Pensions Interest Costs & Expected Return on Assets				7,080
212,342	Net Operating Expenditure		525,743	(246,092)	254,844
(4,218)	Transfers from Other Earmarked Reserves				(17,045)
(3,370)	Contribution from the Pensions Reserve				(8,010)
2,530	Provision for the Repayment of Debt	5			(4,276)
4,741	Revenue Contributions to Capital Expenditure				3,041
(61)	Transfer to/from HRA Major Repairs Reserve				(62)
2,740	Contribution to/(from) HRA Balances				3,727
(1,170)	Contribution to DRF from Revenue Reserves				(1,584)
213,534	Amount to be met from Government Grants and Local Taxation				230,635
(92,048)	General Government Grants				(103,999)
(66,107)	Non - Domestic Rates Redistribution				(65,910)
(52,295)	Demand on Collection Fund				(61,970)
(10)	Transfers to the Collection Fund in respect of Surpluses/Deficits				(300)
3,074	Net General Fund (Surplus)/Deficit				(1,544)
(14,725)	Balance on General Fund brought forward				(11,651)
(11,651)	Balance on General Fund carried forward				(13,195)

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Expenditure on Publicity

Section 5 of the Local Government Act 1986 requires a local authority to keep a separate account of its expenditure on publicity. Expenditure on publicity in 2003/04 is set out in the table below. This includes the regular publications of City News and Housing Link.

<u>2002/03</u> £000's	<u>2003/04</u> £000's
873 Recruitment Advertising	1,013
523 Other Advertising	668
632 Other Publicity	434
<u>2,028</u>	<u>2,115</u>

2. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit making charities within the UK and mayoral appeals. The Council's expenditure for 2003/04 was £162,100 (2002/03 was £216,100).

3. Leasing and Hire Purchase Contracts

a) Finance Leases

The Council holds various capital assets, principally computer equipment and vehicles under finance leases. During 2003/04 £1,700 of finance lease rentals were paid. No new finance leases were entered into during the year.

b) Operating Leases

During 2003/04 the value of assets under operating lease arrangements amounted to £11.9 Million and £1,774,800 of operating lease rentals were paid. As at 31st March 2004 the Council has a commitment to meet the following leasing rentals.

<u>Operating Leases</u>	
	£000's
2004/05	1,443
2005/06	1,286
2006/07 -2012/13	1,724

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

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

4. Local Authority (Goods and Services Act 1970)

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

	<u>Income</u> £000's	<u>Expenditure</u> £000's
Support Services	43	43
City Housing	29	29
Leisure	30	30
Education	1,109	1,109
	<u>1,211</u>	<u>1,211</u>

5. Minimum Revenue Provision

The Authority is required by statute to set aside a minimum revenue provision for the redemption of debt. The method of calculating the provision is defined by statute. The provision that has been included in the service revenue accounts is summarised as follows:

<u>2002/03</u> £000's		<u>2003/04</u> £000's
5,440	Amount charged to revenue (MRP)	5,835
(754)	Credit to revenue (commutation adjustment)	(754)
<u>4,686</u>		<u>5,081</u>
(2,156)	Less depreciation & Impairment already charged	(9,357)
<u>2,530</u>		<u>(4,276)</u>

6. Members Allowances

The total of members allowances paid in 2003/04 was £480,300.

7.Divisional Over and Under Recoveries

All Divisions within the Authority act as pseudo trading undertakings where they are required to break even by generating income from recharges to other Divisions and Portfolios. In 2003/04 the divisional accounts over recovered by £760k.

8. Officers Emoluments

The number of employees whose remuneration, including redundancy payments but excluding pension contributions, was £40,000 or more is shown in the table on [page 13](#).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

<u>Band £</u>	<u>Number of Employees</u>
40,000 - 49,999	149
50,000 - 59,999	26
60,000 - 69,999	17
70,000 - 79,999	4
80,000 - 89,999	3
90,000 - 99,999	0
100,000 - 109,999	1

9. Asset Management Revenue Account

This account consolidates interest payable on loans and depreciation with the charges made to services for the use of assets. The balance on this account is transferred to the Consolidated Revenue Account. The impact of the capital charges, which are calculated on a notional basis, is therefore nil. The analysis for 2003/04 is shown below:

	<u>General Fund</u> £000's	<u>HRA</u> £000's	<u>Total</u> £000's
<u>Expenditure</u>			
External Interest	6,467	4,378	10,845
Internal Interest	332	0	332
Depreciation	3,209	12,139	15,348
Impairment	6,128	0	6,128
Other	184	0	184
	<u>16,320</u>	<u>16,517</u>	<u>32,837</u>
LESS: Capital Charges	<u>(33,728)</u>	<u>(36,682)</u>	<u>(70,410)</u>
Income to Revenue Account	<u>(17,408)</u>	<u>(20,165)</u>	<u>(37,573)</u>

10.Acquired & Discontinued Operations

The Code of Practice requires the City Council to disclose any material operations, which have been acquired or discontinued. There were none during 2003/04.

11. Building Control Trading Account

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

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

Building Regulations Charging Account 2003/04			
	Chargeable	Non Chargeable	Total Building
	£000's	£000's	Control
			£000's
<u>Expenditure</u>			
Employee expenses	305	90	395
Premises	0	0	0
Transport	12	4	16
Supplies & Services	63	2	65
Central & Support Services	215	48	263
Total Expenditure	595	144	739
<u>Income</u>			
Building Regulation charges	955	15	970
Miscellaneous income	310		310
Total Income	1,265	15	1,280
Surplus/(Deficit) for Year	670	(129)	541

12.Pensions

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

In 2003/04, the Council paid an employer's contribution of £11.11 Million into Hampshire County Council's Pension Fund. The contribution rate is determined by the Fund's Actuary, based on triennial valuations. The employer's rate in 2003/04 was 215% of employee's contributions and was set following the 2001 actuarial valuation. The rate set for 2004/05 is 225% this follows the result of the valuation at 31st March 2001.

The authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the CRA after Net Operating Expenditure. The table on [page 15](#) shows the transactions have been made in the CRA during the year.

In addition the Council is responsible for all pension payments relating to added years benefits and gratuity pensions it has awarded, together with the related increases.

The Capital Cost of discretionary increases in pension costs were:

(a)	Approved in the year	£1.8M
(b)	In earlier years for which payments are still being made	£14.4M

Further information can be found in the actuary's valuation report and Hampshire County Council's Pension Fund Annual Report, which are available from the County Treasurer, The Castle, Winchester, Hampshire, SO23 8UB. For information regarding the Council's pension assets and liabilities see [pages 35-37](#).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

<u>Local Government Pension Scheme</u>				
	<u>2002/03</u>		<u>2003/04</u>	
	£000's	£000's	£000's	£000's
<u>Costs Shown in Net Cost of Service</u>				
Curent service costs		11,720		11,780
Past service costs		490		260
<u>Net Operating Expenditure</u>				
Interest Cost	17,140		18,170	
Expected return on assets in the scheme	(15,180)		(11,090)	
		1,960		7,080
<u>Amounts to be met from Government</u>				
<u>Grants and Local Taxation</u>				
Movement on pensions reserve		(3,370)		(8,010)
<u>Actual amount charged against Council</u>				
<u>Tax for pensions in the year</u>				
Employer's contributions payable to scheme		10,800		11,110

Teachers' Pensions

In 2003/04 the City Council paid £6.4 Million to the Department of Education in respect of teachers' pension costs, which represented 13.5% of teachers' pensionable pay. In addition, the City Council is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2003/04 these amounted to £0.29 Million representing 0.60% of pensionable pay.

13.Related Party Transactions

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

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

During the year major transactions with related parties arose with; Hampshire Superannuation Fund and Teachers Pensions Agency as disclosed in note 12 above; Hampshire Police Authority, Precept of £6,104,000, shown in the Collection Fund, [page 22](#); Hampshire Fire Authority Levy of £5,460,401 (forming part of the contributions to other local authorities) as shown within the Consolidated Revenue Account, [page 10](#), and Central Government which has effective control over the general operational of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants; these are set out in the cash flow statement and notes, [pages 41-43](#).

As at 31st March 2004, monies outstanding from related parties included VAT £2.7m; Housing Benefits (Department for Works & Pensions) £5.6m and Non Domestic Rates (Office of Deputy Prime Minister) £2.4m and Housing Subsidy (Office of Deputy Prime Minister) £2m. There are no doubtful debts included within these figures.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

In contrast the Council owed money in respect of National Insurance and PAYE £5.2m; Local Government Superannuation £1.2m; Teacher's Superannuation £0.5m and SEEDA (South East England Development Agency) £1.8m.

For the elected members and chief officers it also includes members of their close family, their households and any company, trust etc in which they have a controlling interest. Elected members and chief officers were requested to disclose any related party transactions; no material transactions were disclosed for 2003/04.

14.Trading Activities

- Southampton City Training (SCT) and Southampton Information Technology Centre (ITEC) provide courses for individuals and as such constitute a trading activity, a loss of £166,400 was returned for 2003/04.
- Other trading activities include Trade Refuse and Solent Business Centre, which generated profits, of £17,900 and £148,200.

15.Disclosure of Audit Fees

The Authority incurred the following fees relating to external audit and inspection:

<u>2002/03</u>		<u>2003/04</u>
£		£
340,000	Statutory Audit & Inspection	340,200
108,700	Certification of Grant Claims and Returns	131,700
18,300	Other Services	7,100
<u>467,000</u>		<u>479,000</u>

The fees for other services related to specialist advice on data protection for 2002/03 and for work on the European Social Fund Claim for 2003/04.

16.Undischarged Obligations

The Council has an obligation to make payment of an estimated £164.6m in respect of the PFI schools over the life of the contract.

17.Post Balance Sheet Events

There are no significant post balance sheet events to report.

HOUSING REVENUE ACCOUNT

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

<u>2002/03</u>		<u>Notes</u>	<u>2003/04</u>
	<u>Income</u>		
(44,196)	Dwellings Rent (Gross)		(44,425)
(1,353)	Non-Dwelling Rents (Gross)		(1,482)
(336)	Leaseholder's Charges for Services and Facilities		(426)
0	Other Charges for Services and Facilities		(568)
(244)	Contributions Towards Expenditure		(242)
(27,336)	Housing Revenue Account Subsidy Receivable (including MRA)		(28,310)
(94)	Housing Benefit Transfers		(84)
(73,559)	Total Income		(75,537)
	<u>Expenditure</u>		
12,852	Repairs & Maint./Contribution to Housing Repairs Account		13,304
8,256	Supervision & Management		8,936
5,149	Special Services		4,374
242	Rents, Rates, Taxes and Other Charges		539
23,614	Rent Rebates		24,672
250	Increased Provision for Bad or Doubtful Debt		250
31,001	Cost of Capital Charges	8	26,450
11,837	Depreciation and Impairment of Fixed Assets		12,139
44	Debt Management Expenses		43
93,245	Total Expenditure		90,707
19,686	Net Cost of Services		15,170
(26,132)	Net HRA Income or Expenditure on the AMRA	8	(22,072)
37	Amortised Premiums and Discounts		37
(329)	HRA Investment Income	6	(296)
(6,738)	Net Operating Expenditure		(7,161)
1,967	Revenue Contribution to Capital Expenditure		1,589
2,092	HRA Contribution to Minimum Revenue Provision Repayment		1,907
(61)	Transfer (to)/from Major Repairs Reserve		(62)
(2,740)	Total (Surplus)/Deficit for the Year		(3,727)
(1,949)	Balance Brought Forward		(4,689)
(4,689)	Balance Carried Forward		(8,416)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Council House Rents

At 31st March 2004, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 6.27%. The total arrears were £3,080,054. Rents written off during the year amounted to £384,898. The main sources of rent income after allowing for voids of £546,124 are set out in the following table:

<u>2002/03</u>		<u>2003/04</u>
£000's		£000's
20,503	Rent met by Tenants	19,628
23,586	Rent Rebates	24,690
<u>44,089</u>		<u>44,318</u>

2. Housing Stock

During the year 1.25 % of lettable properties were vacant. 2003/04 was the first year that service charges and supporting people charges were charged separately from rents, the average rents were £48.30 a week. The stock at the year-end was made up as follows:

<u>2002/03</u>		<u>2003/04</u>
18,308	Stock at 1st April	18,000
(307)	Less: Sales	(269)
(1)	Other/Demolitions	1
<u>18,000</u>	Stock at 31st March	<u>17,732</u>
	Consisting of :	
5,834	Houses	5,709
12,151	Flats	12,009
15	Bungalows	14
<u>18,000</u>		<u>17,732</u>

3. Major Repairs Reserve

	<u>Land</u>	<u>Dwellings</u>	<u>Other</u>	<u>Total</u>
	£000's	£000's	£000's	£000's
Opening Balance	0	0	0	0
Receipts in Year	0	(12,018)	(121)	(12,139)
Payments in Year	0	12,018	121	12,139
Closing Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

NOTES TO THE HOUSING REVENUE ACCOUNT

4. Capital Expenditure

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

<u>Capital Spending During 2003/04</u>	
	£000's
Housing Stock	16,910
Other Property	375
Total	<u>17,285</u>
 <u>Capital Expenditure Source of Finance</u>	
	£000's
Capital Receipts	594
Borrowing	3,283
Grants	691
Transfer from Major Repairs Reserves	12,078
Contributions	243
Direct Revenue Funding	396
Total Financing	<u>17,285</u>

5. Capital Receipts

Capital Receipts are generated from the sale of fixed asset. The following table shows receipts and how they have been utilised in the year.

<u>Housing Revenue Capital Receipts</u>	
	£000's
Opening Balance at 1st April 2003	0
Receipts in Year:-	
Sale of Assets	
Council Housing	14,038
Land, Buildings & Equipment	1
Repayment of Advances	260
Other	151
	<u>14,450</u>
Allowable deduction arising from Disposal	(183)
	<u>14,267</u>
Application in Year:-	
Inter Portfolio Transfer	(3,504)
Financing of new Capital Expenditure	(594)
Provision for Credit Liabilities	(9,903)
Closing Balance at 31st March 2004	<u>266</u>

6. Interest Received

During 2003/04 the Housing Revenue Account received interest amounting to approximately £0.3 Million. The main sources of this income are detailed in the table below.

NOTES TO THE HOUSING REVENUE ACCOUNT

<u>2002/03</u>		<u>2003/04</u>
£000's		£000's
68	Council House Mortgages	49
261	Interest on Other Funds & Balances	247
<u>329</u>		<u>296</u>

7. Fixed Assets

Fixed assets are shown at a valuation of £831.8 Million, an increase of £76.4 Million. The basis of valuation is explained in more detail on [page 3](#).

The vacant possession value of Council Housing within the authority's HRA as at 1st April 2001 was £784.7 Million, which is the Authority's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation. The difference between the two shows the economic cost to the Government of providing council housing at less than open market value.

<u>Movements in Fixed Assets During 2003/04</u>					
	<u>Operational Assets</u>			<u>Non-Operational Assets</u>	
	<u>Council Dwellings and Garages</u>	<u>Other Land and Buildings</u>	<u>Vehicles, Plant and Equipment</u>	<u>Investment</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Net Book Value of Fixed Assets at 31 March 2003	738,003	5,780	802	10,866	755,451
Movement in 2003/04					
Capital Spend in Year	17,221				17,221
Disposal of Assets	(13,516)	0		0	(13,516)
Revaluations					
Change in certified valuations	84,821	0	0	0	84,821
Depreciation for Year	(10,242)	(1,308)	(62)	(528)	(12,140)
Net Book Value of Fixed Assets at 31 March 2004	816,287	4,472	740	10,338	831,837

8. Asset Management Revenue Account

The cost of capital charge reflects the cost of capital tied up in the council housing and other HRA assets. It is calculated as 3.5% of the value of HRA operational assets. However this charge does not impact on the amount of income to be generated to achieve a balanced budget, the actual charge to the HRA is it's share of the total debt and financing costs to the Council. To reflect this, the capital asset charges accounting adjustment is made as a credit to the HRA, being the difference between the cost of capital and the actual HRA debt charges.

NOTES TO THE HOUSING REVENUE ACCOUNT

	<u>2003/04</u> £000's
Cost of Capital Charge (3.5% of Op. Assets)	0
Cost of Capital Accounting Adjustment	(22,072)
HRA Debt Financing & Management Costs	<u>(22,072)</u>

9. General Housing Subsidy

The Government pays two subsidies to the Housing Revenue Account. One is in respect of Rent Rebates and the other is a general housing subsidy based on a notional account representing the Government's assessment of what the Council should be collecting and spending.

The table below shows a breakdown of the amount of HRA subsidy payable to the Council for 2003/04 in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of HRA Subsidy for 2003/04.

	<u>2003/04</u> £000's
Management and Maintenance	24,857
Major Repairs Allowance	12,077
Charges for Capital	7,633
Other Items of Reckonable Expenditure	0
Tenants Participation Compacts	0
Resource Accounting	0
Interest on Receipts	(61)
Guideline Rent Income	(41,352)
Housing Element Entitlement	<u>3,154</u>

10. Provision for Bad Debts

Below is a breakdown of the amount that has been set aside for the provision of bad debts.

<u>2002/03</u> £000's	<u>2003/04</u> £000's
211 MRC Bad Debt Provision	203
1,445 Rents Bad Debt Provision	1,309
<u>1,656</u>	<u>1,512</u>

THE COLLECTION FUND

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

<u>Income and Expenditure for the Year Ended 31 March 2004</u>			
<u>2002/03</u>		<u>Notes</u>	<u>2003/04</u>
£000's			£000's
	<u>Income</u>		
64,604	Income from NDR Payers	1	62,188
48,200	Income Due from Tax Payers	2	57,562
9,161	Benefits	3	11,183
121,965	Total Income		130,933
	<u>Expenditure</u>		
51,604	Southampton City Council Precept	4	61,970
4,655	Hampshire Police Authority Precept	4	6,104
743	Distribution of previous year's surplus		326
64,257	Payments to the NNDR Pool		61,394
347	Allowance to General Fund for NDR Collection	5	336
745	Provision for Bad Debts	6	1,436
122,351	Total Expenditure		131,566
386	(Surplus) / Deficit For the Year		633
(691)	(Surplus) / Deficit Brought Forward		(305)
(305)	Total (Surplus) / Deficit		328

NOTES TO THE COLLECTION FUND

1. Non-Domestic Rates

The Non-Domestic Rates figure represents the amount collected from NDR payers within Southampton less the required bad debt provision, interest and overpayments. Income from Non-Domestic ratepayers is received by the Fund and paid in full to the Central Government Pool after an allowance is made to the City Council's General Fund for the costs of collection. The income due from NDR payers for 2003/2004 has decreased compared with the previous year. The total Non-Domestic rateable value at 1st April 2003 was £167,344,192 with a "rate in the £" of 44.4 pence, which gives a total liability of £74,300,800 at this date. The difference between this and the actual income due from NDR payers of £61,730,600 as shown in the accounts, is mainly due to adjustments for Transitional Relief, mandatory charities relief, partly occupied and empty properties.

2. Council Tax Base

<u>Council Tax Base</u>			
	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A	21,685	6/9	14,457
Band B	26,055	7/9	20,265
Band C	17,623	8/9	15,665
Band D	7,789	1	7,789
Band E	2,653	11/9	3,242
Band F	1,198	13/9	1,731
Band G	395	15/9	658
Band H	7	18/9	14
	<u>77,405</u>		<u>63,821</u>

Taking the total Band D equivalents of 63,821 and multiplying this by the standard council tax of £987.78 gives a total estimated income from taxpayers of £63,041,100. The income due from tax payers as shown in the accounts, is net of benefits and any transitional relief granted, the remaining difference between the estimated and actual income from Council Tax is due to adjustments required to reflect actual exemptions and relief granted during the year.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for 2003/04 was 98.3%, giving a net Council Tax Base of 62,736. Multiplying this by the standard council tax of £978.78, gives the total precepts on the Collection Fund of £61,969,000.

3. Benefits

Some households are entitled to allowances to the standard rate of Tax, which includes Council Tax Benefits. The cost of benefits granted is met by contributions from the City Council's General Fund and Government subsidy. In 2003/04 this contribution consists of government subsidy of 95% and the City Council's contribution of 5%.

4. Precepts

The Precepts represent the demands made on the Fund by Southampton City Council and the Hampshire Police Authority only.

NOTES TO THE COLLECTION FUND

5. Allowance for NNDR Collection

A contribution to the General Fund is made to meet the costs of collection (£336,000)

6. Provision for Bad Debts

The contribution to the Council Tax Bad Debt provision is £978,000 in 2003/04. At the 31st March 2004 the provision totalled £3.597 Million against a liability of £6.387 Million.

CONSOLIDATED BALANCE SHEET

This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2004. Figures for ITEC and SCT, which are included, are based on unaudited accounts. The 2002/03 accounts have been restated to allow for accounting entries arising from the introduction of FRS17 and for the inclusion of Infrastructure Assets transferred from HCC under LGR.

<u>2002/03</u> £000's		<u>Notes</u>	<u>2003/04</u> £000's	<u>2003/04</u> £000's	<u>2003/04</u> £000's
	<u>Fixed Assets</u>				
	<u>Operational Assets</u>				
738,003	Council Dwellings		816,287		
347,580	Other Land and Buildings		341,197		
45,643	Infrastructure		50,946		
7,067	Vehicles, Plant and Equipment		5,571		
2,149	Community Assets		2,286		
	<u>Non-operational Assets</u>				
6,525	Other Land and Buildings		5,725		
107,852	Investment Properties		109,587		
1,254,819		1	1,331,599		
130	Deferred Charges	2	86		
226	Long Term Investments	3	226		
	Long Term Debtors	4			
1,061	Mortgages		781		
269	Other		173		
1,256,505	Non Current Assets				1,332,865
	<u>Current Assets</u>				
64	Work in Progress	5	17		
1,218	Stocks and Stores	6	1,252		
44,422	Debtors	7	39,297		
12,800	Short Term Investments		16,491		
1,663	Cash in Hand and Bank	8	1,586		
60,167				58,643	
	<u>Less Current Liabilities</u>				
(5,200)	Temporary Loans	9	(7,400)		
(4,246)	Loans falling due in year	10	(4,005)		
(40,844)	Creditors	7	(40,894)		
(23,513)	Bank Overdraft	8	(6,975)		
(73,803)				(59,274)	
(13,636)	Net Current Liabilities				(631)
1,242,869	Total Assets less Current Liabilities				1,332,234
(90,776)	Long Term Borrowing	10			(89,810)
(25,647)	Deferred Liabilities	11			(24,602)
(12,132)	Government Grants Deferred	12			(16,887)
(891)	Deferred Capital Balances	14			(631)
(8,542)	Provisions	13			(7,412)
(143,380)	Liability Related to Defined Benefit Pensions Scheme	22			(131,690)
(281,368)					(271,032)
961,501	Total Assets less Liabilities				1,061,202
	<u>Financed by:</u>				
876,427	Fixed Asset Restatement Reserve	15			942,221
9,610	Earmarked Revenue Reserves	16			12,047
193,664	Capital Financing Reserve	17			200,748
8,534	Capital Reserves	18			16,593
(143,380)	Pension Reserve	22			(131,690)
	<u>Revenue Balances</u>	19			
11,651	General Fund				13,195
4,689	Housing Revenue				8,416
306	Collection Fund				(328)
961,501	Total Equity				1,061,202

Signed D. Harryman (Mayor)

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Fixed Assets

Fixed assets are shown at a current valuation of £1,332 Million, an increase of £77 Million. The basis of valuation is explained in more detail on [page 3](#). The revaluations were undertaken by both the Authority's Valuers, under the guidance of Paul Mansbridge (FRICS), and by external valuer Vail Williams, (partner in charge Matthew Samuel-Camps, MRICS). This valuation does not include certain Church and Voluntary Aided schools. These 5 schools have an estimated value of £20 Million.

The movement in Fixed Assets in the year comes about due to changes to asset valuations, disposals of existing fixed assets and new assets funded by capital expenditure.

As a result of revaluations undertaken by the valuation department of the Council there is an increase in asset values of £122 Million, which also reflects the improvement in the property market. See [page 6](#) for details of methods of depreciation used.

Movements in Fixed Assets During 2003/04								
	Operational Assets				Non - Operational Assets			Total
	Council Dwellings and Garages £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure £000	Community Assets £000	Other Land and Buildings £000	Investment £000	£000
Certified Valuation at 31 March 2003	761,187	353,354	9,174	45,968	2,149	6,525	107,852	1,286,209
Less Accumulated Depreciation/Impairment	(23,184)	(5,774)	(2,107)	(325)				(31,390)
Net Book Value of Fixed Assets at 31 March 2003	738,003	347,580	7,067	45,643	2,149	6,525	107,852	1,254,819
Movement in 2003/04								
Additional Assets	17,221	5,378	2,624	6,207	21	151	64	31,666
Disposal of Assets	(13,516)	(801)				(1,203)	(5,861)	(21,381)
Revaluations								
Change in certified valuations	84,821	8,059	(3,019)		116	(2,258)	252	87,971
Depreciation for Year	(10,242)	(2,573)	(1,101)	(904)			(528)	(15,348)
Impairment losses for past year		(6,128)						(6,128)
Net Book Value of Fixed Assets at 31 March 2004	816,287	351,515	5,571	50,946	2,286	3,215	101,779	1,331,599

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

Capital Expenditure Source of Finance	
	£000's
Capital Receipts	8,909
Borrowing Approval	13,856
Grants	8,978
Major Repairs Reserve	12,078
Contributions	4,895
Direct Revenue Funding	559
Special Funds	1,350
Unfinanced Cash	458
Total	51,083
Less- Deferred Charges	(16,876)
Housing Advances	
Total Financing	34,207

NOTES TO THE CONSOLIDATED BALANCE SHEET

Capital Spending During 2003/04

	£000's
<u>Service</u>	
Environment & Transport	10,474
Communities & Regeneration	929
Leisure, Culture & Tourism	1,694
Corporate Services	3,257
Finance	378
Leaders	393
Lifelong Learning & Training	7,661
Health & Social Care	2,744
	<u>27,530</u>
<u>Housing</u>	
Housing Revenue Account	18,415
General Fund	6,314
	<u>52,259</u>
LESS Deferred Charges	(16,876)
LESS Spending Transferred to Revenue Accounts	(1,935)
Total Capital Expenditure	<u>33,448</u>
Plus estimated creditors b/f 2002/03	1,886
Less estimated creditors 2003/04	(1,127)
	<u>34,207</u>

The Council has a number of major contracts that run beyond 31st March 2004, totalling £14.5 Million, these are summarised below:

Significant Commitments for Capital Expenditure After 31 March 2004

	£000's
Refurbishment of Dwelling Stock	17,907
Sinclair - Targeted Capital Funding	1,429
Bus Stop Improvements - Developers	755
Sure Start MRM Bases - Millbrook Health & Family Centre	715
Purchased of Wheeled Bins	625
Renovation	618
Cycle Improvements - Developers	594
Social Services Care Mangement System	452
SEN Review	430
Disabled Facilities	369
Corporate Property Database	350
Backlog Repairs of Non-HRA Property	341
Decent Homes Package 2003/04	333
Other	7,602
Total	<u><u>32,520</u></u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

The total number of assets owned by the Council is difficult to assess, however a summary of the major assets (excluding investment properties) is as follows:

<u>Estimate of Major Fixed Assets of the Council</u>		
	<u>31.3.03</u> No,s	<u>31.3.04</u> No,s
Council Dwellings	18,000	17,732
Civic Centre	1	1
Depots	2	2
Central and Area Offices	4	4
Infant/Primary schools	45	45
Junior Schools	20	20
Secondary Schools	14	14
Special schools	13	13
Activity Centres and Youth Clubs	12	12
Social Services-residential centres	16	16
Social Services-day centres	14	14
Off Street Car Parks	58	59
Libraries	11	11
Leisure Centres and Pools	6	6
Museums, Galleries and Related	6	6
Roads-Length (km)	589	589
Open Spaces and Recreation Areas (hectares)	977	977
Markets	1	1
Cemeteries	5	5
Crematorium	1	1
Toilets	28	28
Ski Slope	1	1
Golf Course	1	1
Local Housing Offices/Advice Centres	13	13
Laboratory	1	1

2. Deferred Charges

Deferred charges represent assets which are not in a tangible form or spending that does not increase the value of an asset. They are required to be amortised to revenue over an appropriate period in a consistent and prudent manner. A statement of deferred charges is provided below.

	£000's			<u>Carried Forward</u> 31.3.04
	<u>Brought Forward</u> 1.04.03	<u>Expenditure</u>	<u>Amounts Written Off</u>	
Communities & Regeneration	0	333	(333)	0
Corporate Services	0	108	(108)	0
Environment & Transport	0	1,430	(1,430)	0
Finance	0	176	(176)	0
Housing & Homes	0	4,031	(4,031)	0
Health & Social Care	0	2,512	(2,512)	0
Leader's	130	246	(290)	86
Leisure Culture & Tourism	0	1,499	(1,499)	0
Lifelong Learning & Training	0	6,541	(6,541)	0
Total	130	16,876	(16,920)	86

NOTES TO THE CONSOLIDATED BALANCE SHEET

3. Long Term Investments

This figure includes the investments of Trust Funds for which the Council is the sole trustee. A large proportion of Trust Fund balances are invested internally and are directly credited with interest at current market rates.

Internal funds are utilised in lieu of external borrowing. On consolidation, these investments are netted off and only external investments are shown.

These investments are shown in the balance sheet at cost. The estimated market value of these external investments of the Council is:

	Cost £000's	Market Value £000's
Council Funds	40.5	37.7
Trust Funds	185.8	257.0
Total	<u>226.3</u>	<u>294.7</u>

4. Long Term Debtors

a) Mortgages

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

	<u>31.3.03</u> £000's	<u>31.3.04</u> £000's
890 Sale of Council Houses		629
123 Housing Associations		123
48 Housing Act Advances		29
	<u>1,061</u>	<u>781</u>

b) Other

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

Some loans are interest free where the loan has been made to an employee who has not renewed a car lease option. Other loans are currently charged at 7.5%, but this is to be reviewed during 2004/05.

5. Work in Progress

Work in progress is work undertaken on a job, which has not yet been completed or charged for. The Direct Service Organisation work in progress in respect of other Council services is eliminated on consolidation of the accounts.

The table on [page 30](#) analyses work in progress between the DSO and the General Fund. As can be seen of the total work in progress of £5.2 Million, virtually all is internal to the Council.

NOTES TO THE CONSOLIDATED BALANCE SHEET

<u>31.3.03</u> £000's		<u>31.3.04</u> £000's
	<u>General Fund</u>	
1,589	Highways	1,481
2,530	Property Maintenance	3,690
9	Other DSO	29
16	Works in Default	17
0	Other	0
<u>4,144</u>		<u>5,217</u>
4,144		5,217
	(4,080) Less Internal Work in Progress	(5,200)
<u>64</u>		<u>17</u>

6. Stocks and Stores

A summary of stocks and stores is as follows:

<u>31.03.03</u> £000's		<u>31.03.04</u> £000's
	<u>General Fund</u>	
96	Engineer's Stores	95
99	Woodmill shop	129
631	Central Stores	644
69	Catering	71
89	Gas Van	89
234	Other	224
<u>1,218</u>		<u>1,252</u>

7. Debtors and Creditors

The Debtor and Creditor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31st March 2004.

National Insurance and PAYE is the amount of the deductions from the Wages and Salaries of City Council staff, which are not paid over to the Inland Revenue by the 31st March 2004.

Inter-Portfolio Debtors and Creditors, including the Direct Service Organisation, cancel each other out when the Consolidated Balance Sheet is produced. Major debtors and creditors are shown on the following tables, an analysis of major creditors for 2003/04 has resulted in a restatement of the 2002/03 breakdown.

NOTES TO THE CONSOLIDATED BALANCE SHEET

<u>Debtors</u>		
<u>2002/03</u> £000's		<u>2003/04</u> £000's
	<u>General Fund</u>	
36,871	Sundry Debtors	23,130
394	City Training/ITEC	0
2,881	VAT	2,669
8,669	Collection Fund	8,731
3,718	Housing Benefits	9,374
<u>52,533</u>		<u>43,904</u>
(2,453)	LESS Internal Debtors	(486)
<u>(9,523)</u>	Provision for Bad Debts	<u>(7,733)</u>
40,557		35,685
6,823	Housing Revenue Account	6,746
<u>(2,958)</u>	LESS Provision for Bad Debts	<u>(3,134)</u>
3,865		3,612
<u>44,422</u>	Total Debtors	<u>39,297</u>

<u>Creditors</u>		
<u>2002/03</u> £000's		<u>2003/04</u> £000's
	<u>General Fund</u>	
30,945	Sundry Creditors	31,144
3,154	National Insurance & PAYE	3,645
0	Teachers Superannuation	543
2,652	Local Government Superannuation	1,209
897	Standards Fund	1,850
852	SRB 5	1,795
735	Building Control Competition A/C	670
480	Assylum Seekers Grant	542
681	City Training/ITEC	418
1,156	Consolidated Loans & Investment Account	1,035
1,970	Collection Fund	836
<u>43,522</u>		<u>43,687</u>
3,855	Housing Revenue Account	2,894
<u>47,377</u>		<u>46,581</u>
(6,533)	Less Internal Creditors	(5,687)
<u>40,844</u>	Total Creditors	<u>40,894</u>

8. Bank Overdraft

The balance shown comprises:

	<u>31.3.03</u> £000's	<u>31.3.04</u> £000's
Bank Accounts	23,513	6,975
Petty Cash	(178)	(189)
City Training/ITEC	(1,485)	(1,397)
Total	<u>21,850</u>	<u>5,389</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

Although the balance shown suggests that the bank is overdrawn by over £6.9 Million this reflects end of year accounting entries and is not the actual cash position. The Council's balance in the Bank at the 31st March 2004 was actually an overdraft of £33,688.

9. Temporary Loans

These loans are of less than one year, raised almost entirely through the Money Market. Local Authorities may borrow temporarily pending the receipt of revenues and in order to finance capital expenditure. The value of short-term loans that may be outstanding at any time must not exceed the Council's annually determined short term borrowing limit

10. Loans Falling Due in Year and Long Term Borrowing

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

<u>Outstanding</u>		<u>Outstanding</u>
<u>31.3.03</u>		<u>31.3.04</u>
£000's		£000's
	<u>Source of Loan</u>	
81,872	Public Works Loan Board	80,671
12,105	Other Financial Institutions	12,072
<u>1,045</u>	Trust and Other Sources	<u>1,072</u>
<u>95,022</u>		<u>93,815</u>
	<u>Analysis of Loans by Maturity</u>	
4,246	Up to 1 year	4,005
2,933	Between 1 and 2 years	2,214
9,137	Between 2 and 5 years	10,103
10,787	Between 5 and 10 years	7,608
<u>67,919</u>	More than 10 years	<u>69,885</u>
<u>95,022</u>		<u>93,815</u>

11. Deferred Liabilities

The balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1st April 1997.

12. Government Grants Deferred

The balance represents grants, which have been applied in previous years to finance capital expenditure.

13. Provisions

Provisions are amounts set aside each year for specific future expenses, the value of which cannot yet be accurately determined.

The Insurance Funds are used to meet claims that fall within the policy excess or deductible i.e. where the Authority has taken advantage of 'self-insurance'. All liability and property claims settled below £100,000 and £20,000 respectively are met from the internal insurance funds. All Directorates are required to contribute toward this fund as part of their annual insurance recharge. Contributions to the fund are reviewed annually based on factors such as exposure (e.g. employee numbers, nature of operations, value of property etc) claims experience and outstanding liabilities.

The estimated outstanding liability for 'claims reported but not settled' as at 31st March 2004 amounted to £5.16million. An independent audit of the internal insurance fund was undertaken in May 2001 and a further audit of the funds will take place in 2004 as part of a wider exercise in connection with the tender of the Council's insurance for 1st April 2005, in the meantime £0.5m has been requested to be transferred from balances to meet the escalating claims from highways.

NOTES TO THE CONSOLIDATED BALANCE SHEET

The Provisions as shown in the balance sheet are analysed in the following table:

	£000's			
	<u>01.04.03</u>	<u>Receipts</u>	<u>Payments</u>	<u>31.03.04</u>
		<u>in year</u>	<u>in year</u>	
<u>General Fund</u>				
Itchen Bridge Repairs	315	125	(26)	414
General Insurance Funds	3,315	2,639	(2,611)	3,343
Faulty Windows	117	0	(5)	112
UPVC Plant	158	0	0	158
Provision for Pay Review	2,500	0	(1,938)	562
Provision for Bad Debt-NRSW	0	951	0	951
Other Provisions	1,594	348	(73)	1,869
	<u>7,999</u>	<u>4,063</u>	<u>(4,653)</u>	<u>7,409</u>
<u>Other</u>				
Heating Account	326	181	(507)	0
Provision for Pay Review HRA	213	0	(213)	0
Other Provisions	4	0	(1)	3
Total	<u>8,542</u>	<u>4,244</u>	<u>(5,374)</u>	<u>7,412</u>

The Local Government and Housing Act 1989 requires the Council to make Provision for Credit Liabilities in respect of money borrowed or in respect of credit arrangements. The figures in respect of this memorandum account are contained within the Capital Financing Reserve as shown below.

<u>2002/03</u>	<u>2003/04</u>
£000's	£000's
149 Amount Brought Forward at 1st April	149
12,336 Reserved proportion of Capital Receipts	9,903
3,101 Minimum Revenue Provision	3,595
0 Credit Cover	0
(15,399) PCL Applied	(13,460)
(38) Credit Cover applied	(38)
<u>149</u>	<u>149</u>

This provision has been applied in 2003/04 in accordance with the Act.

14.Deferred Capital Balances

	£000's			
	<u>01.04.03</u>	<u>Receipts</u>	<u>Payments</u>	<u>31.03.04</u>
		<u>in Year</u>	<u>in Year</u>	
Sale of Council Houses	891	13,751	(14,011)	631
	<u>891</u>	<u>13,751</u>	<u>(14,011)</u>	<u>631</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

15.Fixed Asset Restatement Reserve

This reserve is debited or credited with the impact of the revaluation of assets. The size of the Reserve of £942.2 Million shows the major impact that the valuing of fixed assets has had on the Council's Accounts. It is, however only a notional reserve and cannot be used as a source of finance as it merely represents an amount that may be realised if assets are sold.

16.Earmarked Revenue Reserves

All interest earned on the reserves together with interest earned on General Fund Capital Receipts Unapplied is reflected in the General Fund Revenue account in 2003/04. The level of school balances is the result of the spending decisions of individual schools under the Local Management of Schools legislation. Each school's reserve will be available to it in future years. A statement of all Revenue Reserves is included in the Statement of Total Movements in Reserves, see [pages 38-40](#).

17.Capital Financing Reserve

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

31.03.03 £000's		31.03.04 £000's
(19,212)	Minimum Revenue Provision (less Depreciation)	(37,113)
47,911	Capital Receipts Applied	56,821
75,584	Revenue Contributions to Capital Outlay	77,457
77,824	Capital Receipts Set Aside	87,727
(49,827)	Deferred Charges Written Down	(66,703)
(20,564)	Capital Debtors Applied	(20,584)
23,183	MRA	35,260
835	Other	1,205
<u>135,734</u>		<u>134,070</u>
42,217	Grants Applied - General Fund	49,117
13,598	Contributions Applied - General Fund	14,512
201	Grants Applied - Housing Revenue Account	892
<u>1,914</u>	Contributions Applied - Housing Revenue Account	<u>2,157</u>
<u>193,664</u>		<u>200,748</u>

18.Capital Reserves

These reserves represent sums available to meet future capital expenditure. A statement of all capital reserves is included in the Statement of Total Movements in Reserves.

19.Revenue Balances

The revenue balances on the General Fund and Housing Revenue Account represent sums set aside to meet the cost of unforeseen future expenditure or shortfalls in income.

The Collection Fund balance represents the Council Tax deficit of £328,000, a surplus of £182,700 remains after a deficit of £510,600 was taken into account in setting the 2004/05 Council Tax. The Collection Fund Account in respect of the Council Tax can be found on [page 22](#).

NOTES TO THE CONSOLIDATED BALANCE SHEET

20.Capital Receipts

Capital receipts are generated from the sale of fixed assets. The following table shows the extent to which the capital receipts have been generated and utilised in the year. The closing balance is included within capital reserves.

	<u>Housing Revenue</u> <u>Account</u> £000's	<u>General</u> <u>Fund</u> £000's	<u>Total</u> £000's
Opening Balance at 1st April 2003	0	0	0
Receipts in Year:-			
Sale of Assets			
Council Housing	14,038	0	14,038
Land,Buildings & Equipment	1	9,795	9,796
Repayment of Advances	260	20	280
Other	151	242	393
	<u>14,450</u>	<u>10,057</u>	<u>24,507</u>
Allowable deduction arising from Disposal	(183)		(183)
	<u>14,267</u>	<u>10,057</u>	<u>24,324</u>
Application in Year:-			
Inter Portfolio Transfer	(3,504)	3,504	0
Financing of new Capital Expenditure	(594)	(8,315)	(8,909)
Provision for Credit Liabilities	(9,903)	0	(9,903)
	<u>266</u>	<u>5,246</u>	<u>5,512</u>
Closing Balance at 31st March 2004			

21.Contingent Liabilities

Contingent Liabilities are potential liabilities, which are not legally enforceable but may become so on the happening of a future event. Since these events are not expected to arise no provision has been made for them in the accounts.

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

22.FRS 17

In accordance with Financial Reporting Standard No 17- Retirement Benefits (FRS 17), there is a requirement to disclose certain information concerning assets, liabilities, income and expenditure related to employee pension schemes

Southampton City Council participates in the Local Government Pension Scheme. The Local Government Pension Scheme is a defined benefit scheme based on final pensionable salary.

The most recent valuation was carried out as at 31 March 2001, and has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of FRS17 in order to assess the liabilities of the Fund as at 31 March 2004. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Southampton City Council's standard contribution rate over the accounting period was 215% of members' contributions.

NOTES TO THE CONSOLIDATED BALANCE SHEET

The contribution rates certified for Southampton City Council at the 31 March 2001 valuation are as follows:

April 2002 to March 2003	205% of members contributions
April 2003 to March 2004	215% of members' contributions
April 2004 to March 2005	225% of members' contributions

These figures include the past service element of the contribution rate.

The main assumptions used for the purposes of FRS 17 are as follows:

	31 March 2003	31 March 2004
Discount rate	6.1% pa	6.4% pa
Rate of increase in salaries	4.1% pa	4.4% pa
Rate of increase in pensions in payment	2.6% pa	2.9% pa
Rate of increase in deferred pensions	2.6% pa	2.9% pa
Rate of inflation	2.6% pa	2.9% pa

Long-term expected rates of return on:

Equities	7.6% pa	7.7% pa
Bonds	4.6% pa	4.7% pa
Property	6.6% pa	6.7% pa
Other assets	3.1% pa	4.2% pa
Average long term expected rate of return	6.6% pa	6.9% pa

Assets are valued at fair value, principally market value for investments, and comprise:

	31 March 2003	31 March 2004
Equities	66%	71%
Bonds	23%	21%
Property	6%	4%
Other	5%	4%

The proportions of total assets held in each asset type, shown above, reflect the proportions held by the Fund as a whole at 31 March 2003 and 31 March 2004.

The following amounts were measured in accordance with the requirements of FRS 17:

	31 March 2003 (£m)	31 March 2004 (£m)
Share of assets in the Fund	164.90	204.38
Estimated liabilities in the Fund	(293.88)	(319.87)
Estimated liabilities of discretionary benefits	(14.40)	(16.20)
Southampton City Council's deficit in the Fund	(143.38)	(131.69)

NOTES TO THE CONSOLIDATED BALANCE SHEET

Southampton's share of assets is obviously affected by the value of the whole fund which varies according to stock market conditions; which for the period in question, have been adversely affected by the events of September 11th 2001 and the subsequent war and unrest in Iraq.

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £132m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions by the Authority and employees over the remaining working life of employees, at a level assessed by the scheme actuary.

Note 12 on [pages 14 - 15](#) to the Consolidated Revenue Account contain details of the transactions arising from the Authority's participation in the Local Government Pension scheme.

STATEMENT OF TOTAL MOVEMENT IN RESERVES

This statement brings together all the gains, losses and movements in the year of revenue and capital reserves. It analyses the movement in the reserves from 2002/03 to 2003/04.

	2002/03 £'000	2003/04 £'000	2003/04 £'000
Surplus/(deficit) for the year:			
- General Fund	(3,074)	1,544	
- HRA	2,740	3,727	
- Collection Fund	(395)	(634)	
add back Movement on earmarked revenue reserves (see analysis on page 40)	1,921	2,437	
deduct Appropriation from pension reserve	(17,770)	(9,810)	
Actuarial gains and losses relating to pensions (see analysis on page 40)	57,110	21,500	
Total increase/(decrease) in revenue resources (note 1)	40,532		18,764
Increase/(decrease) in useable capital receipts	29	5,483	
Increase/(decrease) in unapplied capital grants & contributions	(273)	2,576	
Total increase/(decrease) in realised capital resources (note 2)	(244)		8,059
Gains/(losses) on revaluation of fixed assets	306,068	108,651	
Impairment losses on fixed assets due to general changes in prices	(38,186)	(21,476)	
Total increase/(decrease) in unrealised value of fixed assets (note 3)	267,882		87,175
Value of assets sold, disposed of or decommissioned (note 4)	(14,021)		(21,381)
Capital receipts set aside	13,221	4,079	
Revenue Resources set aside	17,465	3,005	
Movement on Grants & Contributions Deferred	(265)	4,755	
Movement on Major Repairs Reserve			
Total increase/(decrease) in amounts set aside to finance capital investment (note 5)	30,421		11,839
Total recognised gains and (losses)	324,570		104,456

NOTES

Revenue Resources

	General Fund Balances £000's	HRA Balances £000's	Collection Fund £000's	Earmarked Revenue Reserve £000's	Pensions Reserve £000's
1.Movement in Revenue Resources					
Surplus/(deficit) for 2003/04	1,544	0	3,727	(634)	0
Appropriations to/from revenue				2,437	(9,810)
Actuarial gains and losses relating to pensions					21,500
	1,544	3,727	(634)	2,437	11,690
Balance Brought Forward at 1 April 2003	11,651	4,689	306	9,610	(143,380)
Balance Carried Forward at 31 March 2004	13,195	8,416	(328)	12,047	(131,690)

STATEMENT OF TOTAL MOVEMENT IN RESERVES

Capital Resources

	<u>Useable Capital Receipts</u> £000's	<u>Unapplied Capital Grants & Contributions</u> £000's
2.Movement in realised Capital Resources		
Amounts receivable in 2003/04 less PCL	14,392	16,449
Amounts Applied to finance new Capital Investment in 2003/04	<u>(8,909)</u>	<u>(13,873)</u>
Total increase/(decrease) in realised Capital Resources in 2003/04	5,483	2,576
Balance Brought Forward at 1 April 2003	29	8,505
Balance Carried Forward at 31 March 2004	<u>5,512</u>	<u>11,081</u>

Fixed Assets

	<u>Fixed Asset Restatement Reserve</u> £000's
3.Movement in unrealised value of Fixed Assets	
Gains/losses on revaluation of Fixed Assets in 2003/04	108,651
Impairment /Depreciation on Fixed Assets	<u>(21,476)</u>
Total increase/(decrease) in unrealised Capital Resources in 2003/04	87,175
4.Value of Assets Sold, Disposed of or Decommissioned	
Amounts written off fixed asset balances for disposals in 2003/04	<u>(21,381)</u>
Total Movement on Reserve in 2003/04	65,794
Balance Brought Forward at 1 April 2003	876,427
Balance Carried Forward at 31 March 2004	<u>942,221</u>

Capital Investments

	<u>Capital Financing Reserve</u> £000's	<u>Grants & Contributions Deferred</u> £000's	<u>Total</u> £000's
5.Movement in amounts set aside to Finance Capital Investment			
Capital Receipts set aside in 2003/04			
- Reserved Receipts	(5,824)		
- Useable Receipts Applied	<u>9,903</u>		
Total Capital Receipts set aside in 2003/04	4,079		4,079
Revenue resources set aside in 2003/04			
- Capital expenditure financed from Revenue	19,901		
- Reconciling amount for provision for loan repayment	<u>(16,897)</u>		
Total Revenue Resources set aside in 2003/04	3,005		3,005
Grants applied to Capital Investment in 2003/04		5,125	
Amounts credited to the Asset Management Revenue Account in 2003/04		<u>(370)</u>	
Movement on Grants & Contributions Deferred		4,755	4,755
Total increase/(decrease) in amounts set aside to finance Capital Investment			11,839
Total Movement on Reserve in 2003/04	7,084	4,755	
Balance Brought Forward at 1 April 2003	193,664	12,132	
Balance Carried Forward at 31 March 2004	<u>200,748</u>	<u>16,887</u>	

STATEMENT OF TOTAL MOVEMENT IN RESERVES

Revenue Reserves

	Balance at 31.03.03	Net (Surplus)/ Deficit for Year	Balance at 31.03.04
<u>Revenue Reserves</u>	£'000's	£'000's	£'000's
HCC Admin/Sals Adjustment	(12)	0	(12)
PFI Sinking Fund	0	(2,521)	(2,521)
Non Capital Receipts	(98)	31	(67)
School Balances	(4,548)	(916)	(5,464)
On Street Parking	(1,900)	874	(1,026)
Deferred Capital Receipts	(34)	0	(34)
Trust Funds	(650)	(22)	(672)
Transport Repairs Equalisation	(412)	(50)	(462)
Invest to Save	(750)	0	(750)
Other Balances	0	(47)	(47)
Housing Act Advances	(9)	(4)	(13)
City Training/ITEC	(1,197)	218	(979)
	<u>(9,610)</u>	<u>(2,437)</u>	<u>(12,047)</u>

Actuarial Gain / Losses Relating to Pensions

<u>Actuarial Gain/Loss for Year</u>					
	<u>2002/03</u>		<u>2003/04</u>		
	£000's	%	£000's	%	
Actual return less expected return on assets	(57,620)	34.9	20,910	10.2	of scheme assets
Experience gains and losses on pension liabilities	860	0.3	(180)	0.1	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	(350)	0.1	770	0.2	of scheme liabilities
	<u>(57,110)</u>		<u>21,500</u>		

CASH FLOW STATEMENT

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

<u>2002/03</u>		<u>2003/04</u>
<u>£000's</u>		<u>£000's</u>
	Revenue Activities	
	<u>Cash Outflows</u>	
201,179	Cash paid to and on behalf of employees	219,284
30,587	Housing Benefits paid out	30,041
63,150	Payments to NNDR Pool	63,778
5,199	Hampshire Police Authority Precept	6,104
99,692	Other Operating Costs (cash payments)	115,457
399,807	Total Cash Outflows	434,664
	<u>Cash Inflows</u>	
(29,986)	Rents (after Rebates)	(27,637)
(48,081)	Council Tax Income	(57,455)
(70,360)	Non-domestic Rate Income - Payers	(68,819)
(66,107)	Non-domestic Rate Income - Pool	(65,910)
(92,048)	Revenue Support Grant	(103,999)
(37,183)	Housing Benefits	(32,520)
(26,842)	HRA Subsidy (incl Rent Rebates)	(27,816)
(1,681)	Other Government Grants	(2,544)
(33,837)	Other Revenue Cash Payments/Income	(89,766)
(406,125)	Total Cash Inflows	(476,466)
(6,318)	Net Cash Inflow from Revenue Activities (Note 1)	(41,802)
	Returns on Investments and Servicing of Finance	
	<u>Cash Outflows</u>	
5,871	Interest Paid	6,483
	<u>Cash Inflows</u>	
(887)	Interest Received	(851)
4,984		5,632
	Capital Activities	
	<u>Cash Outflows</u>	
51,533	Purchase of Fixed Assets	56,864
	<u>Cash Inflows</u>	
(17,813)	Sale of Fixed Assets	(23,834)
(5)	Sale of Long Term Investments	0
(9,374)	Capital Grants Received	(9,431)
(3,231)	Other Capital Cash Receipts	(6,694)
(30,423)		(39,959)
21,110		16,905
19,776	Net Cash(Inflow)/Outflow before Financing	(19,265)
	Management of Liquid Resources	
3,550	Net Increase/(Decrease) in Short-Term Deposits	3,691
	Financing	
	<u>Cash Outflows</u>	
117,355	Repayments of Amounts Borrowed	109,013
	<u>Cash Inflows</u>	
(9,000)	New Long Term Loans Raised	(2,000)
(118,915)	New Short Term Loans	(107,900)
(127,915)		(109,900)
12,766	Net (Increase)/Decrease in Cash (Note 2)	(16,461)

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation of Revenue Account Deficit to Net Cash Flow from Revenue Activities

<u>2002/03</u> £000's		<u>2003/04</u> £000's
3,074	General Fund	(3,727)
(2,740)	HRA	634
395	Collection Fund	(99,701)
<u>96</u>	ITEC and City Training	<u>168</u>
825		(102,626)
	<u>Add Back</u>	
(877)	Appropriations to Reserves	(18,774)
(22,501)	Non Cash Items	(21,463)
<u>(2,425)</u>	Provisions	<u>11,690</u>
(24,978)		(131,173)
	<u>Items on an Accruals Basis</u>	
92	Stock/WIP (decrease)/increase	3,725
(571)	Long Term Debtors (decrease)/increase	76,264
16,579	Short Term Debtors (decrease)/increase	(1,524)
<u>7,544</u>	Creditors (increase)/decrease	<u>16,538</u>
(1,334)		(36,170)
	<u>Items Classified in another classification in the Cash Flow Statement</u>	
887	Interest Received	851
(5,871)	Interest Paid	(6,483)
<u>(6,318)</u>	Net (inflow)/outflow	<u>(41,802)</u>

2. Reconciliation of Net Cash Flow to Movements in Net Debt

	<u>2003/04</u> £000's
Increase / (Decrease) in Cash	16,461
Outflow to Repay Short Term Borrowing.	(1,959)
Inflow from New Long Term Borrowing	966
Purchase of Current Asset Investments	<u>3,691</u>
Movement in Net Debt	19,159
Net Debt at 01.04.03	(109,272)
Net Debt at 31.03.04	<u>(90,113)</u>

NOTES TO THE CASH FLOW STATEMENT

3. Analysis of Changes in Net Debt

	01.04.03	£000's Movement	31.03.04
Bank Overdraft	(23,513)	16,538	(6,975)
Cash in Hand and Bank	1,663	(77)	1,586
Debts Due:			
Within 1 Year	(9,446)	(1,959)	(11,405)
After 1 Year	(90,776)	966	(89,810)
Current Asset Investments	12,800	3,691	16,491
	<u>(109,272)</u>	<u>19,159</u>	<u>(90,113)</u>

4. Other Government Grants

<u>2002/03</u> £000's	<u>2003/04</u> £000's
840 Benefits Administration	1,714
494 Housing Defect Act	494
347 NNDR Collection Grant	336
<u>1,681</u>	<u>2,544</u>

TRUST AND OTHER FUNDS

The Council acts as trustee for legacies left by inhabitants of the City and as residual trustee for the Wessex Slaughterhouse Board.

The Trust Funds are:

- Chipperfield Trust – Purchase works of art and is subject to an independent audit and a separate report is required. The auditors have yet to be appointed.
- Dora Linton and L. C. Smith Bequests – Help maintain the Merchants Navy Memorial in Holyrood Church
- Ida Bany Bequest – Purchase books about America
- Thomas Morgan Bequest – Finance a local essay competition
- Ida Turnbull Bequest – Purchase of large print books made available for public use.
- Miss Orris Bequest – Purchase of pictures for the Art Gallery
- George Knee Fund – Provision of special annual prizes for Bitterne Park School.

The following Trust Funds were transferred from Hampshire County Council: -

- Aldridge Bequest – To facilitate the access of disadvantaged pupils to personal enrichment experiences
- De Gee – Annual treat for children of the former Hollbrook Children's home.

Other Funds are:

- Wessex Slaughterhouse Board – The Council has responsibility of the former constituent authorities to pay the pensions to former employees. Any balance or liability remaining when these responsibilities have been discharged will be shared between Authorities.
- Criminal Injuries Compensation Board – Funds are held on behalf of children under 18 who fall under the Councils supervision.
- Social Services Residents Account – This account holds personal monies on behalf of residents in old people's homes.

TRUST AND OTHER FUNDS

The Trusts and Other Funds are analysed as follows:

	<u>31.03.03</u>	<u>Receipts</u>	<u>Payments</u>	<u>31.03.04</u>
		£	£	
<u>Trusts</u>				
Chipperfield Trust	126,092	12,551	1,265	137,379
Dora Linton Bequest	1,928	70	0	1,999
Ida Bany Bequest	14,354	529	188	14,696
Thomas Morgan Bequest	68	1	0	69
L. C. Smith Bequest	98,137	4,213	6,213	96,137
Ida Turnbull Bequest	21,810	807	7,516	15,101
Miss Orris Bequest	166,048	5,916	0	171,964
Aldridge Bequest	216,653	13,084	0	229,737
De Gee	695	26		721
George Knee	4,421	128	0	4,549
	<u>650,206</u>	<u>37,325</u>	<u>15,182</u>	<u>672,351</u>
<u>Other Funds</u>				
Wessex Slaughterhouse Board	1,061,552	38,707	0	1,100,258
Criminal Injuries Compensation Board	148,462	7,941	53,914	102,489
Social Services Residents Accounts	52,131	40,659	37,826	54,964
	<u>1,262,145</u>	<u>87,307</u>	<u>91,740</u>	<u>1,257,712</u>
Total	<u><u>1,912,352</u></u>	<u><u>124,632</u></u>	<u><u>106,922</u></u>	<u><u>1,930,063</u></u>

GLOSSARY

1. Accruals

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

2. Best Value

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

3. Budget

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

4. Capital Asset Charges

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

5. Capital Expenditure

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

6. Capital Receipts

The proceeds from the sale of capital assets.

7. Community Assets

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

8. Consistency

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

9. Contingency

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

10. Council Tax

A local tax levied by Local Authorities on its citizens.

11. Deferred Charges

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

GLOSSARY

12.Depreciation

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

13.Direct Service Organisation (DSO)

The term Direct Service Organisation (DSO) is used to cover both Direct Labour Organisations (DLOs) established under the Local Government, Planning and Land Act 1980 and DSOs established under the Local Government Act 1988. The legislation relating to DSO's was replaced with the introduction of Best Value.

14.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.

15.Fixed Assets

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

16.General Fund

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

17.Going Concern

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

18.Government Grants

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

19.Housing Revenue Account

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

20.Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

21.Long Term Investments

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

GLOSSARY

22.Long-Term Contracts

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

23.National Non Domestic Rate

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

24.Net Book Value

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

25.Net Current Replacement Cost

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

26.Net Expenditure

Total expenditure for a service less directly related income.

27.Net Realisable Value

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

28.Non-Operational Assets

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

29.Operating Leases

A lease other than a finance lease.

30.Operational Assets

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

31.Post Balance Sheet Events

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

32.Revenue Expenditure/Income

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

33.Statement of Standard Accounting Practice (SSAP)

Accountancy practice's recommended by the Major Accounting Bodies. The application of SSAP's to local authorities is reflected in Statements of Recommended Practices (SORP's).

34.Stocks

Comprise the following categories:

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

35.Useful Life

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

Independent Auditor's Report to Southampton City Council

I have audited the financial statements on pages 10 to 45, which have been prepared in accordance with the accounting policies applicable to local authorities as set out between pages 3 to 6.

This report is made solely to Southampton City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of Chief Financial Officer and Auditor

As described on page 7, the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly:

- the financial position of the council and its income and expenditure for the year,
- the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I review whether the statement on internal control on pages 8 and 9 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risks and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

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Southern House
Sparrowgrove
Otterbourne
Winchester
SO21 2RU

Tel: 01962 704600
Fax: 01962 704601

Basis of Audit Opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In my opinion the statements of accounts present fairly the financial position of Southampton City Council as at 31st March 2004 and its income and expenditure for the year then ended.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit practice issued by the Audit Commission.

Signed

Date: 30th November 2004

S.Goodyear

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Southern House
Otterbourne
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