

**Portsmouth**  
*CITY COUNCIL*

**STATEMENT  
OF  
ACCOUNTS  
2011/12**

.....

**Chris Ward**  
**Head of Finance & S151 Officer**

.....

**Date**

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

TABLE OF CONTENTS

EXPLANATORY FOREWORD .....	4
STATEMENT OF RESPONSIBILITIES .....	24
MOVEMENT IN RESERVES STATEMENT.....	25
COMPREHENSIVE INCOME & EXPENDITURE STATEMENT .....	26
BALANCE SHEET .....	27
CASH FLOW STATEMENT .....	29
NOTES TO THE FINANCIAL STATEMENTS .....	30
1. STATEMENT OF ACCOUNTING POLICIES.....	30
2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED .....	43
3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES.....	43
4. ASSUMPTIONS MADE ON SOURCES OF ESTIMATION UNCERTAINTY .....	44
5. MATERIAL ITEMS OF INCOME AND EXPENSE.....	45
6. EVENTS AFTER THE BALANCE SHEET DATE .....	45
7. ADJUSTMENTS OF ACCOUNTING AND FUNDING BASIS UNDER .....	
REGULATIONS .....	46
8. TRANSFERS TO / FROM EARMARKED RESERVES.....	48
9. PROPERTY, PLANT & EQUIPMENT .....	49
10. DATES AND AMOUNTS OF VALUATIONS OF TANGIBLE NON-CURRENT .....	
ASSETS .....	52
11. INFORMATION ON ASSETS HELD.....	53
12. SIGNIFICANT COMMITMENTS FOR FUTURE CAPITAL EXPENDITURE .....	54
13. INVESTMENT PROPERTIES .....	54
14. INTANGIBLE ASSETS .....	55
15. FINANCIAL INSTRUMENTS.....	56
16. CONSTRUCTION CONTRACTS .....	62
17. SHORT-TERM DEBTORS .....	63
18. CASH AND CASH EQUIVALENTS .....	64
19. ASSETS HELD FOR SALE .....	64
20. SHORT-TERM CREDITORS .....	65
21. PROVISIONS .....	65
22. UNUSABLE RESERVES.....	66
23. CASH FLOW STATEMENT – OPERATING ACTIVITIES .....	72
24. CASH FLOW STATEMENT – INVESTING ACTIVITIES .....	72
25. CASH FLOW STATEMENT – FINANCING ACTIVITIES.....	72
26. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS .....	73
27. ACQUIRED AND DISCONTINUED OPERATIONS .....	77
28. TRADING OPERATIONS.....	77
29. AGENCY SERVICES .....	78
30. POOLED BUDGETS .....	78
31. MEMBERS ALLOWANCES .....	79
32. OFFICERS REMUNERATION .....	79
33. EXTERNAL AUDIT COSTS.....	81
34. DEDICATED SCHOOLS GRANT .....	82
35. GRANT INCOME.....	83
36. RELATED PARTIES.....	84
37. CAPITAL EXPENDITURE AND CAPITAL FINANCING .....	87
38. LEASES.....	88

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

39.	PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS.....	91
40.	IMPAIRMENT LOSSES.....	94
41.	TERMINATION BENEFITS .....	94
42.	LIABILITY RELATING TO DEFINED BENEFIT PENSION SCHEME .....	94
43.	PENSION SCHEMES ACCOUNTED AS DEFINED CONTRIBUTION SCHEMES.....	100
44.	DISCLOSURE OF THE IMPACT OF AN ERROR .....	100
45.	OTHER COMPANIES.....	102
46.	LONG TERM DEBTORS .....	102
47.	OTHER LONG TERM LIABILITIES .....	103
48.	HERITAGE ASSETS: FIVE – YEAR SUMMARY OF TRANSACTIONS .....	103
49.	HERITAGE ASSETS: FURTHER INFORMATION.....	105
50.	HERITAGE ASSETS: CHANGE IN ACCOUNTING POLICY REQUIRED BY THE CODE OF PRACTICE FOR LOCAL AUTHORITY ACCOUNTING. ....	106
51.	TRUST FUNDS .....	109
52.	EXIT PACKAGES .....	110
53.	EXCEPTIONAL ITEMS.....	110
54.	OTHER SHORT TERM LIABILITIES	111
	COLLECTION FUND .....	111
	HOUSING REVENUE ACCOUNT (HRA).....	115
	MOVEMENT ON THE HRA BALANCE .....	116
	NOTE TO THE STATEMENT OF MOVEMENT ON THE BALANCE .....	117
	GROUP ACCOUNTS.....	126
	GLOSSARY OF TERMS.....	1378

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**EXPLANATORY FOREWORD**  
**Financial Year Ended 31st March 2012**

**Introduction**

The explanatory foreword is a commentary on the overall financial position of the Council and is intended to provide an easily understandable guide to the most significant matters reported in the accounts and to assist in their interpretation.

The intent of the whole suite of financial statements is to give clear information about the Authority's finances. In particular they cover:

- The overall financial position of the City Council as a single entity and the position of the "Group" which principally includes both the City Council and MMD (Shipping Services) Limited (MMD)
- The cost of the services provided by the City Council for the year
- How the cost of the Council's Services have been financed
- Any surpluses or deficits made by the Council in the year
- The value of the Council's assets, liabilities and reserves at the end of the year

**Financial Statements 2011/12 – Commentary**

The Financial Statements comprise the following:

- Explanatory Foreword
- Statement of Responsibilities for the Statement of Accounts
- Movement in Reserves Statement
- Comprehensive Income & Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- Notes to the Financial Statements
- Collection Fund
- Housing Revenue Account (HRA)
- Group Accounts

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**The Statement of Responsibilities for the Statement of Accounts**

This statement sets out the respective responsibilities of the City Council and the Head of Finance & S151 Officer (i.e. the Chief Financial Officer of the Council) for the accounts. In particular, it highlights the requirement of the Head of Finance & S151 Officer to state that the Statement of Accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2012.

**Changes in Accounting Standards**

The main change in accounting standards between 2010/11 and 2011/12 relates to a change in the treatment in accounting for Heritage assets. Heritage assets are now carried in the balance sheet at valuation as opposed to cost. Additionally, some Heritage assets were not previously recognised at all and these have now been included within the Council's Balance Sheet.

Previously, Heritage assets were either recognised as community assets (at cost) in the Property, Plant and Equipment classification in the Balance Sheet or were not recognised in the balance sheet as it was not possible to obtain cost information on the assets.

In applying the new accounting policy, the Authority has reclassified £6m of assets within Property, Plant and Equipment to Heritage Assets and brought on to the 31 March 2011 Balance Sheet a further £41m of Heritage assets that were not previously recognised. The effect of the change has been to increase the overall Net Assets of the Council by £41m with a corresponding increase in the Revaluation Reserve of the same amount. The 1 April 2010 and 31 March 2011 Balance Sheets have been restated with the new policy applied.

**The Comprehensive Income & Expenditure Statement (CIES)**

The Comprehensive Income & Expenditure Statement brings together all of the functions of the Authority and summarises the true economic cost of providing those services. It also demonstrates how those costs have been financed from general government grants and income from local taxpayers. Regulations stipulate however, that some of those costs should not fall on the taxpayer as they generally relate to future liabilities. These costs are removed within the Movement in Reserves Statement (see next section)

Whilst a separate statement is required for the Housing Revenue Account (i.e. which relates solely to Council Housing), the CIES also incorporates all of the income and expenditure contained therein under the heading of Local Authority Housing (HRA).

The Comprehensive Income and Expenditure Statement, together with the Movement in Reserves Statement (see next section) represents the totality of the revenue transactions of the City Council and therefore the overall surplus or deficit transferred to General Reserves.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The Comprehensive Income & Expenditure Statement is divided into five main sections as follows:

- Net Cost of Services – The total costs attributed to the services provided by the City Council in the year. This amounted to £650.6m gross but after deducting housing rents, specific grants and other income resulted in net spending on specific services of £273.3m.

This represents a significant reduction in net expenditure compared with 2010/11 of £29.8m or 10%. This is largely as a consequence of the very significant and unusually high impairment charge (reduction) made to Council Dwellings in the previous year of £193m compared with no impairment charge in 2011/12. This however, has been offset by two very significant items as follows:

- i) The previous year saw income of £82.2m in Non Distributable costs which was represented by an improvement in the anticipated costs of the Local Government Pension scheme. This arose due to the change from the use of the Retail Price Index to the Consumer Price Index relating to past benefits accrued. In 2011/12, Non Distributed costs amounted to £1.4m, a swing over the year of £83.6m
- ii) An exceptional item relating to a “one off” payment to the Government of £88.6m in order to release the Council from the Housing Revenue Account subsidy arrangements which involved annual payments to Government (this amounted to £4.9m in 2010/11 and 4.3m in 2011/12).

The three items described above collectively account for a net reduction in expenditure of £20.8m. The remaining £9.0m reduction in expenditure can, for the most part, be explained by a reduction in the impairment charge across other services between both years.

Whilst depreciation and impairment charges represent a very significant cost to the City Council’s services, the accounting arrangements for Local Authorities are such that these charges are not passed on to the Council Taxpayer, the transaction is reversed in the Movement in Reserves Statement (MIRS) and therefore has a neutral impact on the overall financial position of the Council.

- Other Operating Expenditure – Other operating expenditure is unrelated to direct revenue expenditure on services. Other net operating expenditure added net income of £2.7m. The main items being the gains from sales of non current assets of £3.3m however, 75% of any actual sales receipts

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

from Council Houses are paid over to the Government and this amounted to £0.8m.

- Financing and Investment Income & Expenditure – Income and expenditure relating to the Council’s long and short term investments and any financing costs associated with the acquisition of Non Current Assets. These activities added a net cost of £21.5m with the main contributors being the cost of servicing the Council’s £361.5m debt portfolio amounting to £21.4m but offset by income from investments of £3.8m. A further £7.6m was added relating to the financing and investment activities of the Local Government Pension Scheme however, this has a financially neutral effect on the Council as the cost is reversed out by regulation in the Movement in Reserves Statement.
- Taxation & Non Specific Grant Income – These are the main revenue and capital funding sources received from the Government and Local Taxpayers. In total, the Council received £209m of funding from these sources of which a third was from Local Taxpayers and the majority of the remainder from Central Government. This highlights the Council’s reliance on Central Government to fund services.
- Deficit / (Surplus) on the Provision of Services – Taking all of the above into account (i.e. the net costs of service provision less income from Government and Local Taxpayers) the City Council made a deficit of £83.2m in providing services to the public. This compares to a deficit of £120.2m in 2010/11, a change of £37m. The main reasons for the change being:
  - A £29.8m reduction in the net cost of services largely relating to the reduction in Local Authority Housing costs but offset by the exceptional payment to Government to exit the Housing Revenue Account Subsidy System plus the “falling out” of the “one off” improvement in the liabilities to the Local Government Pension Scheme
  - A £2.1m increase in the gain on disposals of assets (i.e. the actual sale price of the asset less its Balance Sheet value)
  - A £2.3m improvement in Financing and Investment activities of which £3.4m relates to the Local Government Pension Scheme and a £2.4m improvement in the results of trading operations. This is offset by additional debt servicing costs of £2.3m and reduced investment income of £1.1m.
- Total Comprehensive Income & Expenditure – Takes the Deficit / (Surplus) on the Provision of Services and then makes adjustments for any revaluation gains or losses on the Council’s assets (or possibly liabilities in the case of pensions). The total Comprehensive Income &

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Expenditure for the year was a deficit of £142.2m compared with an overall deficit of £116.5m in 2010/11.

Whilst the cost of the Provision of Services reduced over the period by £37m, the overall deficit on the Comprehensive Income & Expenditure Statement increased by £25.7m, an overall movement of £62.7m. The primary reason for this is a deterioration in the assets and liabilities of the Local Government Pension Scheme of £60.4m in 2011/12 compared with an increase in value of £6.8m in 2010/11, which has resulted in a total movement of £67.2m.

The overall deficit of £142.2m is not the entirety of the entries required to determine the overall impact on the General Reserves (i.e. the Council Taxpayer) of the Council. There are a number of further entries required to the Accounts contained within the Movement in Reserves Statement which are of a statutory nature and are peculiar to Local Authorities; these are described in the following section.

The overall deficit for the year does not necessarily mean that action is required to reduce expenditure or raise Council Tax as explained in the next section entitled Movement in Reserves.

The format of the Comprehensive Income & Expenditure Statement is quite different to the way in which City Council Services are managed, delivered and budgeted for and therefore it is not readily comparable to the City Council's budget, which is prepared in a form consistent with the way in which the Council is organised.

### **Movement in Reserves Statement (MIRS)**

This statement provides a summary presentation of the full financial performance of the Council's activities over the past year culminating with the actual transfer of a surplus or deficit to or from Reserves in the Balance Sheet after accounting for all transactions. Those reserves are then analysed between Useable Reserves that are generally available for the Council to spend and Unusable Reserves that are not.

The statement starts with the deficit from the Comprehensive Income & Expenditure Statement of £142.2m. Of this, £59.0m relates to asset revaluations (pensions and other assets) and therefore features as a charge against non useable reserves. The remaining £83.2m deficit is then adjusted to add back £96.8m net income relating to adjustments required by statute in deriving the sums that can be charged to Council Tax Payers. The main elements of the



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

£96.8m net income comprise expenditure added back relating mainly to Capital Financing, Depreciation & Impairment and Pensions adjustments as follows:

- General Fund Balance – £(11)m
- Housing Revenue Account Balance - £(87)m
- Major Repairs Reserve - £6m
- Other - £(5)m

As a consequence of all of the adjustments required by statute, the Council's main General Fund Balance increased in the year by £6.2m, representing the Council's overall performance on its General Fund activities. It is important to note however, that this increase in General Reserves incorporates schools. The actual performance, in terms of the impact on the General Reserves of the Council, analysed between those generally available to the Council and those available to schools, is as follows:

Description	Schools (General Fund)	Rest of City Council (General Fund)	Total General Fund Balance
	£m	£m	£m
Balance brought forward as at 1st April 2011	(6.3)	(20.2)	(26.5)
Contribution (to) / from Reserves	(2.3)	(3.9)	(6.2)
<b>Balance carried forward as at 31st March 2012</b>	<b>(8.6)</b>	<b>(24.1)</b>	<b>(32.7)</b>

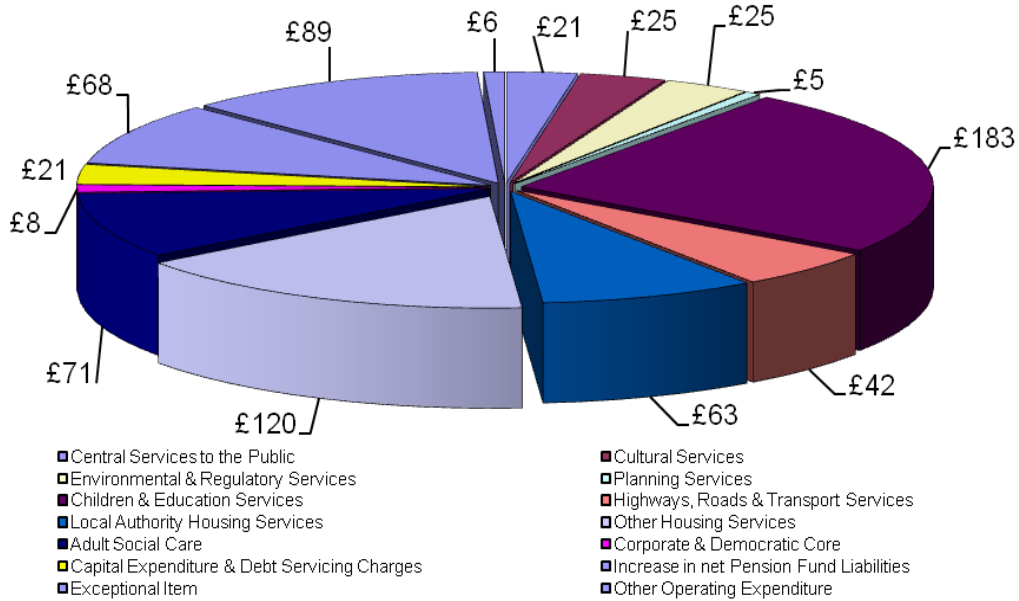
**NB. Brackets represent surpluses**

The total surplus (or contribution to reserves) of the City Council amounted to £6.2m. This however, consists of a contribution to School's Reserves of £2.3m and a contribution to General Reserves for the rest of the City Council of £3.9m.

To demonstrate how the £3.9m contribution to General Reserves of the Rest of the City Council arose in 2011/12, an illustration of the City Council's Gross Expenditure (excluding the transfer of the School's surplus) followed by an illustration of its sources of finance is provided below.

**PORTSMOUTH CITY COUNCIL  
Annual Report 2011/12**

**City Council Gross Revenue Expenditure 2011/12  
£747.0m**

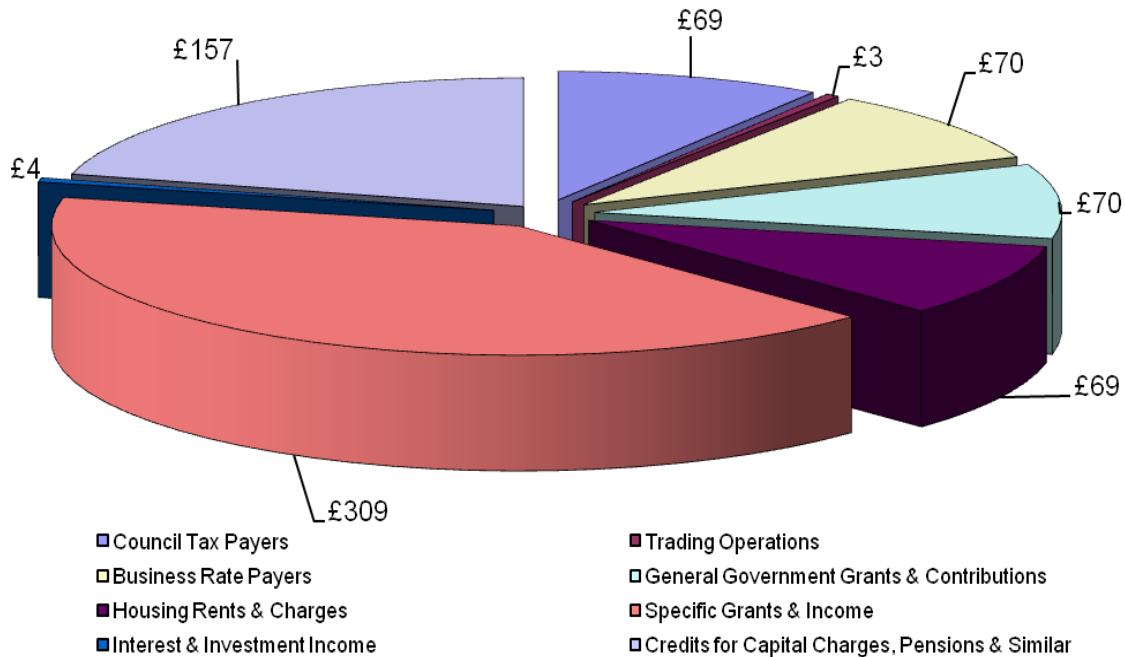


**Please note that some expenditure types have been amalgamated for ease of presentation and understanding**

The gross expenditure of £747.0m financed by £750.9m of income as described below with the surplus of £3.9m being the contribution to the General Fund Reserves. Excluding schools, this surplus represents the extent to which the City Council's in year income has exceeded its in year expenditure.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**City Council Sources of Finance 2011/12**  
**£750.9m**



**Please note that some income types have been amalgamated for ease of presentation and understanding**

The City Council's Revised Budget for 2011/12 (excluding schools) estimated that the City Council would make a contribution from Reserves of £0.4m. This level of contribution was consciously planned in order to support service spending in the current year whilst savings initiatives are managed in over the medium term. The ultimate aim is for in-year expenditure to match in-year income. The actual contribution to Reserves of £3.9m represents a net improvement in the Council's position compared to its budget of £4.3m. The most significant reasons for the improvement in the forecast level of General Reserves are as follows:

**Main Underspendings against Budget:**

- Unused general contingency of £1.8m
- In Children & Education Services - £1.3m savings were realised from the early delivery of a restructure of the Early Years Service (£0.5m), delayed implementation of some Early Intervention Programmes (£0.4m) and miscellaneous savings in the Youth Service (£0.3m) plus other smaller savings of £0.1m.
- Savings within Adult Social Care amounting to £0.8m mainly arising from additional client contributions from in house residential units (£0.2m),

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

- Savings in Learning Disability Services (£0.2m) and Social Worker vacancies (£0.2m) plus other smaller savings of £0.2m.
- Higher than anticipated income earned from the investment of surplus cash balances amounting to £0.6m
- Lower than anticipated financial support required for the Council's subsidiary stevedoring company, MMD, amounting to £0.5m
- Improved trading results from the Port of £0.3m
- Housing Benefit subsidy received in 2011/12 from the Government relating to 2010/11 was £0.3m higher than had been accounted for in that financial year

Main Overspendings against Budget:

- In Education & Children's Services – £1.0m. The establishment of School Support Clusters at £0.5m was made available in order to support Educational Attainment. Continued pressure remained on the Home to School Transport budget which was £0.2m overspent plus the costs associated which childcare court cases also continued to cause pressure resulting in an overspend of £0.3m
- In Adult social Care – £0.7m. The cost of Residential and Nursing Care was £0.3m overspent due to a combination of higher than anticipated nursing care clients plus lower than expected contributions from clients. In addition, client contributions from the provision of Domiciliary Care was £0.4m less than anticipated.
- A significant increase in the provision made for bad debt relating to the loans provided for Private Sector Housing Renovations was made in the year amounting to £0.3m

Given that the City Council currently has a forecast budget deficit of £27m (or £56m on a cumulative basis) over the next 3 years, this overall improvement in the future forecast of General Fund Reserves of £4.3m can now go some way towards "smoothing out" the savings required to eliminate the deficit. Alternatively, this improvement of £4.3m could be used to provide "up front" investment costs associated with "Spend to Save" schemes or "Invest to Save" schemes which are aimed at generating on-going cashable efficiencies for the Council over the medium term.

Plans are currently being worked up to reduce the Council's net expenditure in future years via a transformation programme and service reductions more generally. These comprise a combination of:

## PORTSMOUTH CITY COUNCIL Annual Report 2011/12

- Improved efficiency
- Increased income
- Better targeting of resources towards higher need and improved demand management
- Rationalised Services but designed around priority outcomes

### The Balance Sheet

The Balance Sheet shows the totality of the City Council's assets and liabilities in respect of all of its activities with the outside world as at 31<sup>st</sup> March 2012. In particular, it shows:

- The value of the non current assets employed in its operations together with a summary of the type of assets held.
- The value of long and short term investments (i.e. investment of surplus cash balances) held
- The debt, both long and short term owed to the City Council (i.e. debtors)
- Cash Balances held
- The amount of money owed to others for goods and services received but not yet paid for (i.e. creditors)
- The amount of long term borrowing that the Council has from loans undertaken to finance capital expenditure
- The balances and reserves of the Council – some of which are useable and others that are not. Contained within the unusable reserves is the value of unfunded liabilities relating to the Local Government Pension Scheme (i.e. Portsmouth's share of the current estimated shortfall in the Pension Fund)

### Non Current Assets

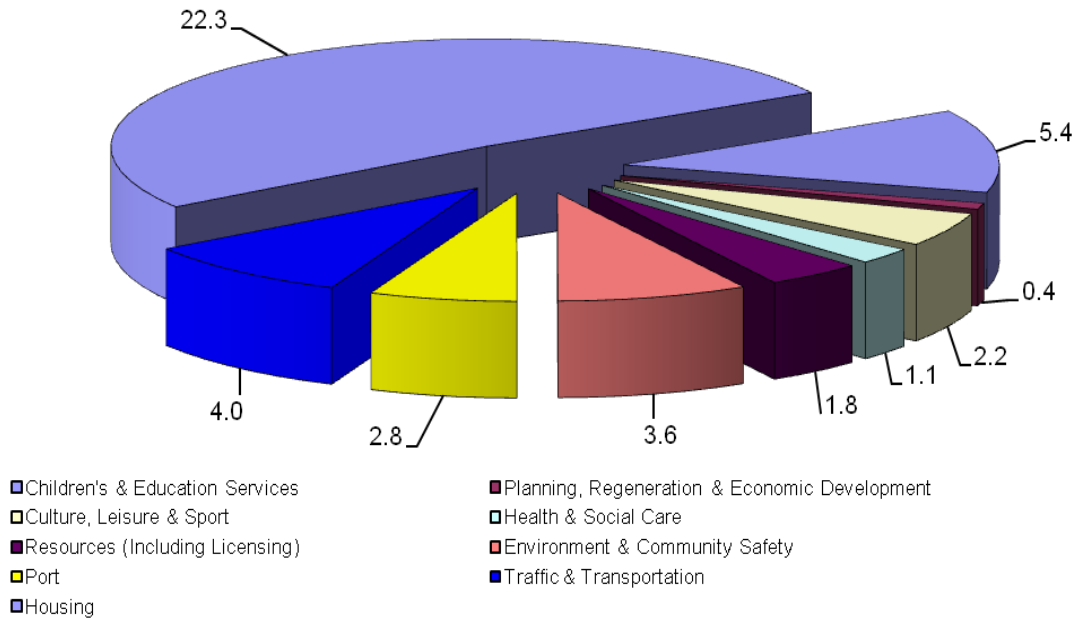
On the 31 March 2012, the City Council had Non Current Assets in operation and assets under construction in the form of Property, Plant & Equipment valued at just under £1.0 billion. In addition to this, the City Council had Intangible Assets (such as software licenses, other licenses, trademarks and patents), Investment Properties and other assets valued at £119m. This equates to a total value of Non Current Assets of £1.1 billion and is just £17m less than the previous year.

The City Council made £43.6m of Capital Investment within the City in 2011/12 from its Capital Programme.

**PORTSMOUTH CITY COUNCIL  
Annual Report 2011/12**

This expenditure was made in the following areas:

**Main Areas of Capital Expenditure 2011/12  
£43.6m**



The capital expenditure described above was financed from the following sources:

<u>Source of Finance</u>	<u>£m</u>
Receipts from Sales of Capital Assets	4.5
External Grants and Contributions	13.2
Revenue & Reserves	18.4
Long Term Borrowing & Other Adjustments	7.5
<b>Total</b>	<b>43.6</b>

The most significant capital investment plans of the City over the next 5 years include the following:

- The Schools Strategy – Achieving Excellent Schools, a programme of building replacement and refurbishments - £29m
- Flood defence works - £67m
- Investment in, and maintenance of, Council Housing - £136m
- Private Sector Housing (Affordable Housing and Housing Standards) - £16m
- Tipner Motorway Junction and Park & Ride Facility - £30m
- New Road to facilitate the Northern Quarter City Centre Re-development - £15m
- Northern Road Bridge Repairs - £12m

## PORTSMOUTH CITY COUNCIL Annual Report 2011/12

### Long Term Liabilities

The City Council's Long Term debt has risen significantly over the year from £191m as at the end of 2010/11 to £358m as at March 2012. There were two main factors that led the City Council to increase its borrowing. First, the need to finance the payment to Government of £88.6m to release the City Council from the HRA Subsidy system. Second, to take advantage of historically low rates of interest on loans which the Council has a financing need for based on spending decisions that have already been made in relation to Capital Investment.

### Current Assets

In terms of current assets, the City Council was owed £43.5m in debt excluding monies owed from Government (which is up by £0.3m from the previous year). Of this total debt, £16.1m is the amount that is estimated to be uncollectable and is the accumulated amount that has been set aside in the event that it is ultimately written off.

Excluding monies owed from Government, the overall amount of debt owed to the Council has increased by 14%. This increase illustrates a mixed picture where some of the key categories of debt due to the Council have fallen, Sundry Debt in particular. Other categories such as Housing Benefits have increased markedly.

The main reasons for the changes relate to the following:

- Other Local Authorities – the sums owed have increased by £1.7m however, this debt is fairly low risk and is likely to be paid.
- Capital Receipts – this debt relates to sums due from developers in respect of land sold and is contractually bound and relatively secure. The amount owed compared to last year has fallen by £0.6m to £1.3m.
- Council Tax – the sums owed by Council Taxpayers has increased slightly by 6.5% after 4 consecutive years of falls and now stands at £10.0m (up from £9.4m in 2010/11). The in year collection of Council Tax also fell marginally from 95.1% in 2010/11 to 95.0% in 2011/12.

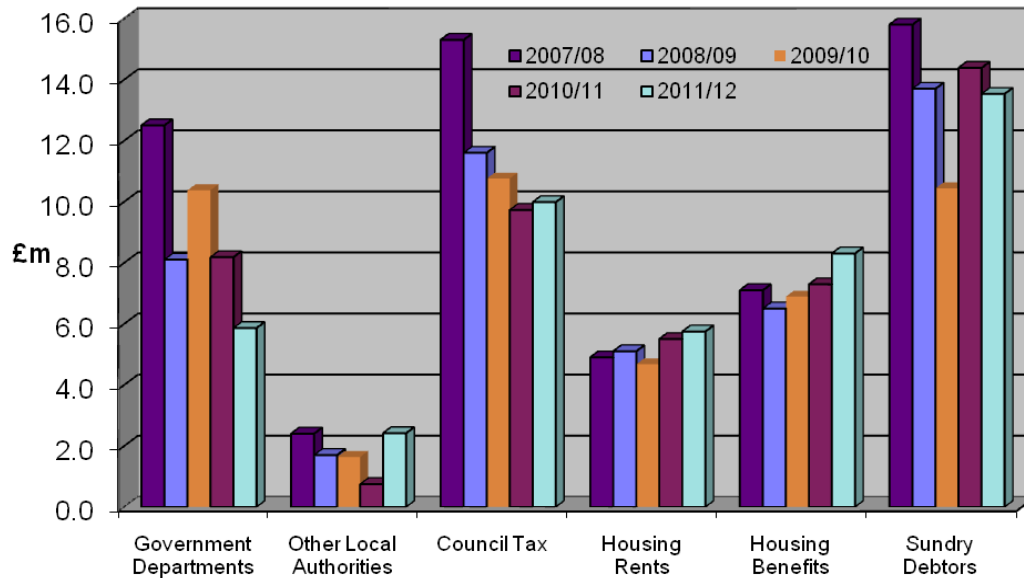
The City Council wrote-off just £270,000 of Council Tax Debt last year but would normally expect to write off approximately £1.3m in a "normal year" based on an ultimate collection rate of 98.3% of all Council Tax billed. This therefore, more than accounts for the £0.3m increase in debt during the year.

- Housing Rents owed increased from £5.5m to £5.7m
- Housing Benefit debt (recovery of overpayments) increased by £1.0m during the year from £7.3m to £8.3m
- Sundry Debt including capital receipts reduced during 2011/12 from £14.4m to £13.5m representing a decrease of 5.9% on the previous year, much of this debt however remains within credit terms.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

An illustration of the main categories of debt and their levels over the past 5 years is shown below

**Analysis of Short Term Debt - 2007/08 to 2011/12**



Other current assets included £166.5m of short-term investments (i.e. temporary surplus cash balances held on the money markets) up from £93.7m the year before. Whilst short-term investments held on the money markets amounted to £166.5m, a further £72.9m was held in instant access Money Market Funds and therefore classified as Cash and Cash Equivalents

Current Liabilities

On the 31 March 2012, the City Council itself, owed suppliers £64.1m for goods and services received in 2011/12 of which £48.2m was for sundry items and sums owed to contractors working on capital schemes. Whilst this may appear to be a significant amount of money that the Council has not paid to suppliers, it does reflect normal business and the City Council's payment performance in 2011/12 stood at 89% of all undisputed invoices paid within terms.

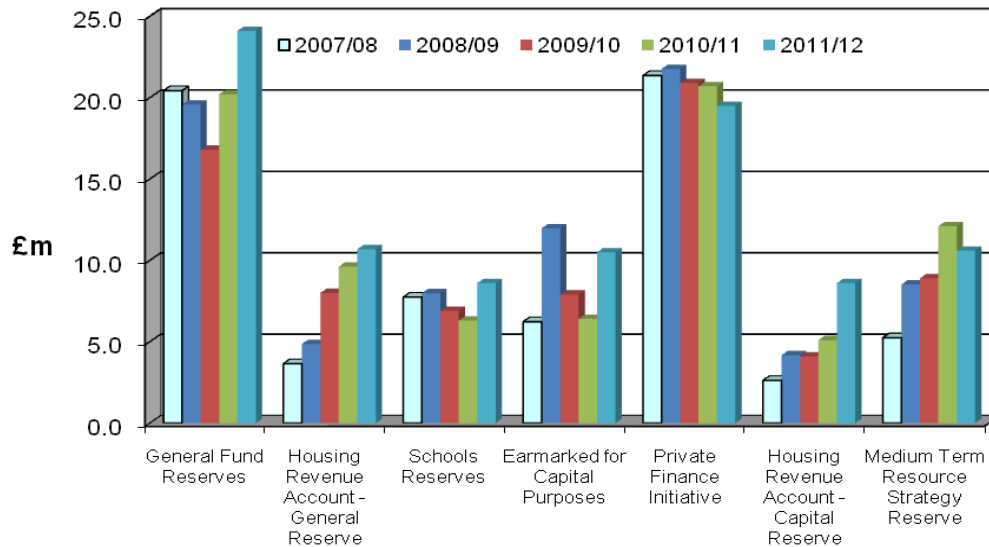
Reserves

The reserves held on the balance sheet fall into two categories, Useable Reserves (that can be spent) and Unusable Reserves (that cannot be spent). The main Useable Reserves that existed at the 31st March 2012 are illustrated below including a comparison of how they have moved over the last 5 years.



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Balances on Main Distributable Reserves - £m**



**General Fund Reserves (excluding Schools) – Balance £24.1m**

At the 31st March 2012, the Council's General Fund Reserves amounted to £24.1m (up from £20.2m in 2010/11). General Reserves (excluding schools) increased by £3.9m over the year versus a planned contribution from General Reserves of £0.4m representing a net improvement of £4.3m.

At present, the Council has a policy of maintaining a minimum level of General Fund Reserves of £5.5m in 2012/13 and rising to £6.1m for future years; any excess over and above this is used to fund Council Services.

**Housing Revenue Account General Reserve - Balance £10.7m**

The HRA General Reserve increased by £1.1m in the year from £9.6m in 2010/11 to £10.7m in 2011/12. These HRA General Reserves, as well as the General Fund Reserves above, are held for two purposes. Firstly, to act as a general contingency against unanticipated expenditure and the potential to fall into deficit. Secondly, as a means of "smoothing out" any shortfalls between the overall amount of funding that the Council receives against the costs of delivering stable service levels.

**Schools Reserves – Balance £8.6m**

These are revenue reserves accumulated from previous years from underspends against their devolved budgets. The increase of £2.3m in 2011/12 reflects schools spending less in 2011/12 than their annual budget allocation.

## **PORTSMOUTH CITY COUNCIL Annual Report 2011/12**

### **Earmarked for Capital Purposes – Balance £10.5m**

This is a reserve that is maintained as a source of funding for the Capital Programme and is at present fully committed for that purpose. The reserve increased in the year by £4.1m mainly arising from the need to finance capital expenditure in future years.

### **Private Finance Initiative – Balance £19.5m**

This reserve accumulates any surplus of Government Grants received in respect of Private Finance Initiatives (PFI) over and above the debt financing costs associated with those schemes. Whilst surpluses are realised in the early years of these typically 20-year plus schemes, deficits will arise in the later years. This reserve is maintained to fund those deficits in later years. In the year, the reserve decreased by £1.2m reflecting the net deficit between the Unitary Payments made to the PFI contractor and the PFI Grant, interest and contributions accruing to the reserve. 2011/12 is the fourth year that the Government Grant was insufficient to cover the unitary payments.

### **HRA Capital Reserve – Balance £8.6m**

The reserve supports future spending on capital projects relating to Council Housing. In the year, the reserve increased by £3.5m reflecting the contributions made to this reserve to fund future capital investment relating to Council Housing schemes. This reserve is all fully committed to financing that programme.

### **Medium Term Resource Strategy Reserve – £10.6m**

This reserve was set up as a means to fund spend to save schemes to facilitate efficiencies and go some way towards addressing the Council's future years' forecast deficits. It is also used to provide for any redundancy costs associated with such schemes and any other service rationalisation proposals. The reserve has decreased over the year by £1.5m despite a Council decision to contribute £3.9m arising from the overall City Council underspend for the financial year 2010/11. The main reasons for the reduction were the use of the Reserve to fund redundancy costs in the year and some capital expenditure. The current balance of £10.6m is fully committed to funding schemes previously approved by the Council or future anticipated redundancy costs.

### **Net Assets (Overall Net Worth)**

In the year, the Council's Net Assets (or the value of the Council) reduced by £142m, mainly as a consequence of the payment to Government for the release from the HRA Subsidy system of £88.6m plus the deterioration of £64m in the Local Government Pension Scheme deficit.

### **The Cash Flow Statement**

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties whether for revenue or capital purposes. It is intended to give an indication of the movements in the Council's cash balances over the year and so excludes all accounting entries, such as depreciation charges, that do not result in physical cash payments or receipts. In the year the Council's cash (and cash equivalents) position improved by £46.4m.

## PORTSMOUTH CITY COUNCIL Annual Report 2011/12

### Notes to the Financial Statements

The core financial statements have been described above and comprise:

- Comprehensive Income & Expenditure Account
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement

The notes to these statements provide supporting information and analyses to assist in their understanding.

Whilst the form and content of the financial statements for a Local Authority are prescribed in law, in certain circumstances more than one accounting basis or estimation technique can be acceptable. The purpose of the Statement of Accounting Policies is to enable a fuller understanding of the accounts and, in particular, to describe for all material items, the policies that have been adopted.

The main policies that have been adopted in the statement of accounts are:

- The accounts are prepared on an accruals basis as opposed to a cash basis
- Most assets are valued at open market value or depreciated replacement cost and are depreciated to reflect the use of that asset
- Central Support Services (for example, Finance, IT, Human Resources, Asset Management and Legal Services) have been apportioned to Services on varying bases, which represent a realistic approximation of the benefits received by those services.
- The cost of pensions contained within the accounts represents the value of benefits earned by employees as opposed to the amount that the employer has contributed to the Local Government Pension Scheme on the employees' behalf. Any unfunded liabilities on the pension fund are represented in the balance sheet and amount to £321.8m at 31 March 2012 (i.e. a Pension Fund deficit).

Local Authority Accounts are prepared in accordance with International Financial Reporting Standards. This is a suite of accounting standards that are used across the world.

# PORTSMOUTH CITY COUNCIL Annual Report 2011/12

## The Collection Fund

The Collection Fund is a statutory account which includes all transactions in respect of Non Domestic Rates and Council Tax and shows how these sums are distributed to the City Council, the Police Authority and the Hampshire Fire & Rescue Authority. The overall balance on the Collection Fund is consolidated with the other accounts of the Authority into the Balance Sheet.

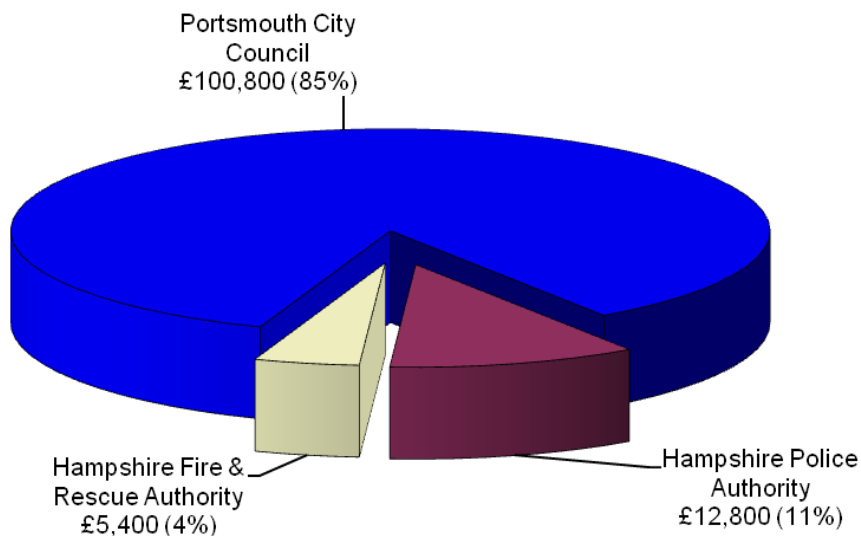
The Collection Fund is intended to break even but is dependent largely on the robustness of the estimates of the amount of Council Tax that will be collected. At the beginning of the year, the fund was in surplus in the sum of £0.9m and when the Budget was revised in February 2012 it was anticipated that the fund would be in deficit in the sum of £0.3m. The Budget for 2012/13 was prepared on this basis i.e. that there would be a repayment of this deficit of £0.3m during 2012/13.

The actual deficit on the Collection Fund at the end of 2011/12 was £0.4m i.e. £0.1m higher than anticipated. Since the Budget and Council Tax for 2012/13 was set on the basis of a £0.3m deficit, the difference of £0.1m deficit from the estimate may need to be recovered through the 2013/14 Budget Process. An estimate of the Collection Fund balance as at the end of 2012/13 will be revised in the light of this deficit and all other circumstances just prior to setting the Council Tax and Budget for the next financial year. Any estimated deficit at that time will then be recovered during the next financial year.

The primary cause of the overall fund deficit is higher than anticipated provision for bad and doubtful debts compared with budgeted sums.

The City Council administers the Collection Fund and collects the Council Tax on behalf of the City Council, Police Authority and the Hampshire Fire & Rescue Authority and therefore any surplus or deficit on the fund is shared with them. Should the unplanned increase in the deficit of £0.1m (£119,000) remain, this would be shared as follows:

### Unplanned Collection Fund Deficit - £119,000



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Any unplanned deficit that relates to the City Council (e.g. £0.1m) will be transferred from General Fund Reserves in 2013/14 and planned into future financial forecasts accordingly.

**The Housing Revenue Account (HRA)**

The HRA includes only income and expenditure relating to the City's council housing stock. It does not include Local Authority expenditure on other Housing services e.g. support for Registered Social Landlords or Housing Benefit Payments. The purpose of the HRA is to separately identify the services that council tenants pay for through their rents as opposed to their Council Tax. It includes expenditure on Management & Maintenance of Council Housing and how these costs are met by Rents, Charges, Grants and other income. An analysis of the main types of expenditure on Council Housing is illustrated below.

The overall in year surplus or deficit on the HRA is incorporated within the Local Authority Housing line of the overall Comprehensive Income & Expenditure Account described previously. The surplus / deficit made is then transferred to the Balance Sheet as a contribution / withdrawal against the HRA Reserve and is shown in the Movement in Reserves Statement.

The Housing Revenue Account has been prepared on the same basis as the Comprehensive Income & Expenditure Statement, in that it also presents a surplus / deficit that is comparable to the private sector. Again, this is not the entirety of the entries required to determine the overall impact on the HRA Reserve.

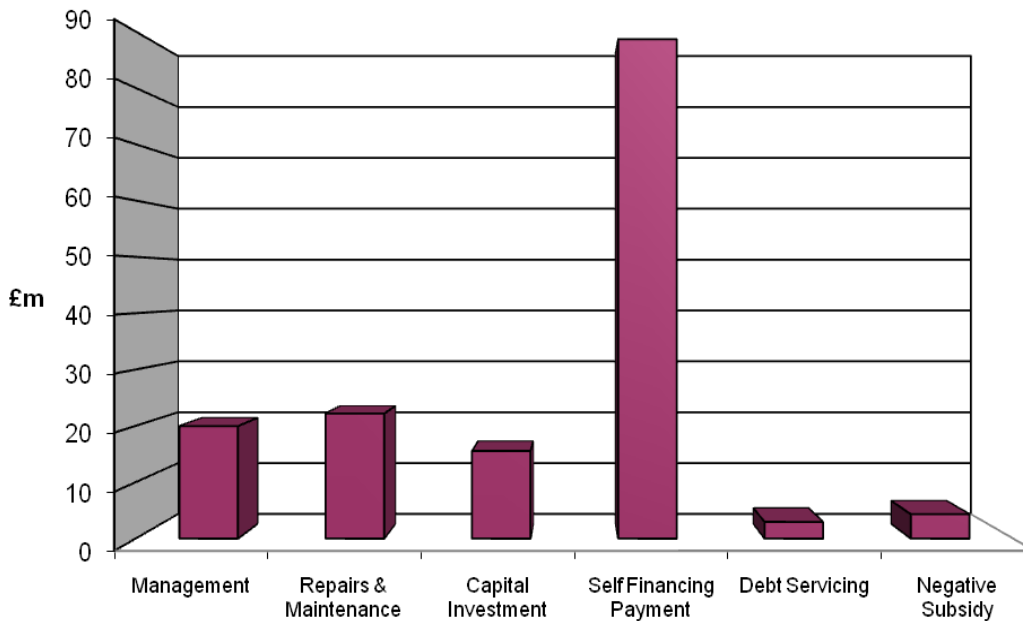
Overall the HRA made a deficit of £82.3m in the year 2011/12. This represents a major reduction in cost compared with 2010/11 (£192.3m deficit) of £110m. As mirrored in the overall Comprehensive Income & Expenditure Statement for the City Council, this improvement has mainly been caused by a significant and unusually high impairment charge (reduction) made to Council Dwellings in the previous year of £193m compared with no charge in 2011/12. The exceptional payment to the Government for the release from the HRA Subsidy system of £88.6m however, has had the effect of reducing the movement between years. Whilst the HRA made a deficit the accounting arrangements for Local Authorities are such that many of these charges such as impairment and the exceptional payment are not passed on to the Council Rent payer in a single year, rather they are reversed in the Movement in Reserves Statement and the charges spread over future years.

After taking account of other net income required by statute of £86.9m, and a contribution of £3.5m to the HRA Capital Reserve, the HRA made a contribution to the HRA Reserve of £1.1m. This £1.1m improvement in the HRA Reserve represents the excess of income received in 2011/12 over and above total expenditure.

The main items of Council Housing expenditure for 2011/12 are set out below.

**PORTSMOUTH CITY COUNCIL  
Annual Report 2011/12**

**Main Areas of Council Housing Spending 2011/12 - £154m**



The Revised Budget for 2011/12 approved in February 2012 assumed that the HRA would make an overall contribution to the HRA General Balance of £0.2m. This was deliberately planned in order to provide funds to support future years budgets when in year expenditure is anticipated to exceed in year income. Compared with the actual contribution to the HRA Reserve of £1.1m, this represents an improvement in the overall anticipated financial position on the HRA of £0.9m.

The HRA Reserve now stands at £10.7m compared with £9.6m at 31 March 2011 and is held as an overall contingency to avoid falling into deficit and to provide support to future years budgets where income levels are not sufficient to meet service needs.

The HRA continues to maintain a healthy position. Although current estimates indicate that whilst it will remain in surplus over the medium term, that surplus is reducing as spending and service levels rise at a quicker pace than income levels in the shorter term but then even out over the medium term.

**Group Accounts**

The Accounts of the Group consolidate into a single set of statements the financial performance of both the Portsmouth City Council (PCC), MMD (wholly owned subsidiary) and Portchester Crematorium (associate) plus two smaller non trading subsidiaries. Since the Financial Statements are intended to include only transactions with external organisations, any transactions between the City Council and its subsidiaries and associates have been eliminated in order to avoid under or overstating transactions and balances.

Since the City Council itself is by far the larger of the entities within the Group, the Group position is very similar to that of the City Council. In terms of Service Expenditure, the in-year results for MMD are incorporated into Highways and Transport Services.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The headline financial position for the Group as a whole is as follows:

- The Group deficit for the year amounted to £142.5m, of which all but £17,000 relates to the PCC single entity
- Whilst MMD has reported a headline surplus of £0.1m, the company made that surplus following a £1.2m transfer of grant support from the City Council.
- The Net Worth of the Group has deteriorated by £142.5m over the year, largely as a consequence of the payment to Government for the release from the HRA Subsidy system of £88.6m plus the deterioration of £64m in the Local Government Pension Scheme deficit as described in the single entity accounts.
- Debts owed to the Group (after sums set aside for non collectable debt) decreased by 8.1% to £36.7m
- The Group's cash position improved over the year by £46.8m from a surplus position of £25.2m to £72.0m

**Conclusion**

In 2011/12 the Council has experienced an improvement in its General Reserves (excluding schools) of £3.9m and this represents the extent to which the City Council's in-year income has exceeded its in-year expenditure. There was a planned contribution from General Reserves of £0.4m, therefore this contribution to General Reserves of £3.9m represents an overall underspend against the budget of £4.3m. The £4.3m improvement arose from underspendings, in the main, arising from the non-use of contingencies, interest on surplus cash balances and lower than anticipated financial support to MMD.

The deficit on the Collection Fund of £0.419m is slightly higher than the anticipated deficit of £0.3m reflected within the Budget. The City Council's share of the £0.119m budget variance is £101,000. Combining this shortfall in the Budget with a £4.3m underspend has resulted in a net improvement in the Council's overall medium term financial position of £4.2m compared with the Revised Budget.

The overall improvement in the Council's financial position will now feature in the revisions to the Council's Medium Term Financial Strategy that aims to deliver the Council's key priorities over the medium term within a sustainable level of resources.

In addition to this, the Housing Revenue Account made a surplus of £1.1m which was £0.9m more than planned. The Account continues to be robustly managed with healthy projections over the medium term.

.....

**Chris Ward**  
**Head of Finance & Section 151 Officer**

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**STATEMENT OF RESPONSIBILITIES**

**The Authority's responsibilities**

The Authority 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 Authority, that officer is the Head of Finance and Section 151 Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguards its assets;
- Approve the Statement of Accounts.

**The responsibilities of the Head of Finance and Section 151 Officer**

The Head of Finance and Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the code").

In preparing this Statement of Accounts, the Head of Finance and Section 151 Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code.

The Head of Finance and Section 151 Officer has also:

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2012.

Signed

Chris Ward  
Head of Finance and section 151 Officer  
20th September 2012.



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**MOVEMENT IN RESERVES STATEMENT**

This statement shows the movement in the year on the different reserves held by the Authority, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance	Earmarked Reserves	Housing Revenue Account Balance	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserve
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31st March 2010 carried forward</b>	(23,655)	(50,402)	(7,962)	(3,290)	(2,497)	(19,280)	(107,086)	(642,977)	(750,063)
<b>Movement in reserves during 2010/11</b>									
Deficit or (surplus) on the provision of services	(72,138)	0	192,345	0	0	0	120,207	0	120,207
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	(3,735)	(3,735)
<b>Total Comprehensive Expenditure and Income</b>	<b>(72,138)</b>	<b>0</b>	<b>192,345</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>120,207</b>	<b>(3,735)</b>	<b>116,472</b>
Adjustments between accounting basis & funding basis under regulations (note 7)	66,957	0	(195,020)	(11,727)	1,469	418	(137,903)	137,903	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(5,181)</b>	<b>0</b>	<b>(2,675)</b>	<b>(11,727)</b>	<b>1,469</b>	<b>418</b>	<b>(17,696)</b>	<b>134,168</b>	<b>116,472</b>
Transfers to / from Earmarked Reserves (note 8)	2,317	(3,335)	1,018	0	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>(2,864)</b>	<b>(3,335)</b>	<b>(1,657)</b>	<b>(11,727)</b>	<b>1,469</b>	<b>418</b>	<b>(17,696)</b>	<b>134,168</b>	<b>116,472</b>
<b>Balance at 31st March 2011 carried forward</b>	<b>(26,519)</b>	<b>(53,737)</b>	<b>(9,619)</b>	<b>(15,017)</b>	<b>(1,028)</b>	<b>(18,862)</b>	<b>(124,782)</b>	<b>(508,809)</b>	<b>(633,591)</b>
<b>Movement in reserves during 2011/12</b>									
Deficit or (surplus) on the provision of services	922	0	82,290	0	0	0	83,212	0	83,212
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	58,971	58,971
<b>Total Comprehensive Expenditure and Income</b>	<b>922</b>	<b>0</b>	<b>82,290</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>83,212</b>	<b>58,971</b>	<b>142,183</b>
Adjustments between accounting basis & funding basis under regulations (note 7)	(11,035)	0	(86,855)	5,680	(2,008)	(2,630)	(96,848)	96,848	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(10,113)</b>	<b>0</b>	<b>(4,565)</b>	<b>5,680</b>	<b>(2,008)</b>	<b>(2,630)</b>	<b>(13,636)</b>	<b>155,819</b>	<b>142,183</b>
Transfers to / from Earmarked Reserves (note 8)	3,930	(7,430)	3,500	0	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>(6,183)</b>	<b>(7,430)</b>	<b>(1,065)</b>	<b>5,680</b>	<b>(2,008)</b>	<b>(2,630)</b>	<b>(13,636)</b>	<b>155,819</b>	<b>142,183</b>
<b>Balance at 31st March 2012 carried forward</b>	<b>* (32,702)</b>	<b>(61,167)</b>	<b>(10,684)</b>	<b>(9,337)</b>	<b>(3,036)</b>	<b>(21,492)</b>	<b>(138,418)</b>	<b>(352,990)</b>	<b>(491,408)</b>

\* £8.6m of the General Fund Balance at 31st March 2012 (£6.3m at 31st March 2011) represents school’s balances which can only be spent by school’s under devolved budgetary arrangements.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**COMPREHENSIVE INCOME & EXPENDITURE STATEMENT**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11 Gross Expenditure Restated £000	2010/11 Gross Income Restated £000	2010/11 Net Expenditure Restated £000	<u>Comprehensive Income and Expenditure Statement</u>	Notes	2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
21,600	(17,049)	4,551	Central Services to the Public		20,615	(16,725)	3,890
23,456	(3,253)	20,203	Cultural Services		25,418	(3,258)	22,160
29,591	(6,778)	22,813	Environmental and Regulatory Services		25,268	(5,352)	19,916
5,211	(3,113)	2,098	Planning Services		4,523	(2,280)	2,243
192,465	(146,761)	45,704	Children's and Education Services		181,021	(129,684)	51,337
45,931	(26,374)	19,557	Highways and Transport Services		42,008	(24,780)	17,228
63,062	(65,182)	(2,120)	Local Authority Housing (HRA)		63,056	(68,689)	(5,633)
117,370	(103,933)	13,437	Other Housing Services		120,142	(107,279)	12,863
82,586	(22,144)	60,442	Adult Social Care		70,736	(18,978)	51,758
4,977	(67)	4,910	Corporate and Democratic Core		7,862	(329)	7,533
0	0	0	Non Distributable Costs		1,366	0	1,366
192,619	0	192,619	Exceptional Item: HRA Impairment	53	0	0	0
(82,155)	0	(82,155)	Exceptional Item: Non Distributable Costs	53	0	0	0
0	0	0	Exceptional Item: HRA Self Financing	53	88,619	0	88,619
1,046	(11)	1,035	Discontinued Operations		0	0	0
<b>697,759</b>	<b>(394,665)</b>	<b>303,094</b>	<b>Net Cost of Services</b>		<b>650,634</b>	<b>(377,354)</b>	<b>273,280</b>
		(1,147)	Loss / (Gain) on the disposal of Fixed Assets				(3,277)
		75	Precepts and Levies				74
		1,098	Amounts payable into the Housing Capital Receipts Pool				779
		(135)	Portchester Crematorium				(140)
		(127)	Miscellaneous Operating Income and Expenditure				(112)
		<b>(236)</b>	<b>Other Operating Expenditure</b>				<b>(2,676)</b>
		19,123	Interest payable and similar charges				21,360
		(4,863)	Interest & Investment income				(3,778)
		10,980	Pensions Interest Costs & Expected Return on Assets	42			7,550
		(959)	(Surplus)/Deficit on trading undertakings & other operations	28			(3,386)
		(468)	Income, Expenditure and changes in the fair value of Investment Properties				(266)
		<b>23,813</b>	<b>Financing, and Investment Income &amp; Expenditure</b>				<b>21,480</b>
		(68,432)	Income from Council Tax				(69,128)
		(40,612)	Non Ring Fenced Government Grants				(54,181)
		(20,998)	Capital Grants and Contributions				(15,856)
		(76,422)	Contribution from Non Domestic Rate Pool				(69,707)
		<b>(206,464)</b>	<b>Taxation and Non-Specific Grant Income</b>	35			<b>(208,872)</b>
		<b>120,207</b>	<b>Deficit / (Surplus) on the Provision of Services</b>				<b>83,212</b>
		3,029	Surplus or deficit on revaluation of non-current assets				(1,322)
		67	Surplus or deficit on revaluation of available for sale financial assets				(136)
		(6,831)	Actuarial (gains) / losses on pension assets / liabilities	42			60,429
		<b>(3,735)</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>58,971</b>
		<b>116,472</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>142,183</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

***BALANCE SHEET***

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

1st April 2010 Restated £000	31st March 2011 Restated £000	<u>Balance Sheet</u>	Notes	31st March 2012 £000
1,181,265	986,434	Property, Plant & Equipment	9	981,447
47,347	47,301	Heritage Assets	48	47,944
32,714	33,372	Investment Property	13	33,369
1,562	1,421	Intangible Assets	14	1,352
23,561	26,250	Long Term Investments	15	10,270
22,060	23,208	Long Term Debtors	46	26,320
<b>1,308,509</b>	<b>1,117,986</b>	<b>Non-current Assets</b>		<b>1,100,701</b>
117,424	93,684	Short Term Investments	15	166,520
4,035	4,678	Inventories		2,344
35,325	36,529	Short Term Debtors	17	33,259
17,428	24,891	Cash & Cash Equivalents	18	71,255
2,055	9,023	Assets Held For sale	19	8,092
<b>176,267</b>	<b>168,805</b>	<b>Current Assets</b>		<b>281,470</b>
(2,921)	(2,915)	Short Term Borrowing	15	(6,712)
(67,652)	(72,281)	Short Term Creditors	20	(64,103)
(4,741)	(4,090)	Other Short Term Liabilities	54	(20,705)
(5,816)	(2,734)	Capital Grant Receipts in Advance		(3,582)
(5,060)	(5,168)	Provisions	21	(3,957)
<b>(86,190)</b>	<b>(87,188)</b>	<b>Current Liabilities</b>		<b>(99,059)</b>
(112,358)	(108,509)	Other Long Term Liabilities	47	(106,783)
(5,343)	(4,863)	Provisions	21	(3,829)
(191,073)	(190,734)	Long Term Borrowing	15	(358,173)
(338,248)	(257,817)	Pension Liability	42	(321,848)
(1,501)	(4,089)	Capital Grant Receipts in Advance		(1,071)
<b>(648,523)</b>	<b>(566,012)</b>	<b>Long Term Liabilities</b>		<b>(791,704)</b>
<b>750,063</b>	<b>633,591</b>	<b>Net Assets</b>		<b>491,408</b>
(107,086)	(124,782)	Usable Reserves		(138,418)
(642,977)	(508,809)	Unusable Reserves	22	(352,990)
<b>(750,063)</b>	<b>(633,591)</b>			<b>(491,408)</b>

20th September 2012.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**CASH FLOW STATEMENT**

The cash flow statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2010/11 £000		Notes	2011/12 £000
(120,207)	Net surplus or (deficit) on the provision of services		(83,212)
330,852	Adjustment to surplus or deficit on the provision of services for non cash movements		28,779
(24,038)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		141,573
<b>186,607</b>	<b>Net Cash flows from Operating activities</b>	23	<b>87,140</b>
(176,170)	Net Cash flows from Investing Activities	24	(230,427)
(2,974)	Net Cash flows from Financing Activities	25	189,650
<b>7,463</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>46,363</b>
17,428	Cash and cash equivalents at the beginning of the reporting period	18	24,892
<b>24,891</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	18	<b>71,255</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

***NOTES TO THE FINANCIAL STATEMENTS***

***Statement of Accounting Policies***

**General**

The Statement of Accounts aims to present a true and fair view of the financial position and transactions of the City Council for the 2011/12 financial year and its financial position at 31st March 2012.

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA"), and the Service Accounting Code of Practice also issued by CIPFA. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

**Accruals of Income & Expenditure**

Financial Statements other than the Cash Flow Statement are prepared on an accruals basis. This means that the sums due to or from the City Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year in question. Accruals have been made for all known items of revenue and expenditure, including capital debtors and creditors, for goods and services supplied by and to the City Council, during the year. The Financial Statements therefore record the date when the obligation arises rather than when it is settled by a cash transaction.

**Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

**Prior Period Adjustments, Changes in Accounting Policies and Errors**

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

Changes to accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

## PORTSMOUTH CITY COUNCIL Annual Report 2011/12

### Non-current Assets

All expenditure on the acquisition, creation or enhancement of an asset that yields a benefit for a period greater than one year can be treated as capital expenditure in the accounts. Non-current assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. The City Council classifies its fixed assets into the following groupings defined in the Code of Practice on Local Authority Accounting:

Property, plant and equipment are used for service provision. Infrastructure assets (e.g. coastal defences) are included in the balance sheet at historic cost, net of depreciation. Community assets (eg. Parks) and assets under construction are included in the balance sheet at historic cost. Council dwellings are valued on an existing use basis (social housing). All other property plant and equipment is included in the balance sheet at market value based on existing use. Specialised assets are included at depreciated replacement cost if there is insufficient evidence to determine market value in existing use;

Investment properties are held solely for income generation or capital appreciation. They are included on the balance sheet at open market value;

Assets held for sale, ie. assets that are being actively marketed and where a sale is probable, are valued at the lower of open market value or existing use value.

Heritage assets, i.e. assets held principally for their contribution to knowledge and culture, are valued on the same basis as property, plant and equipment. However the principals applying to property, plant and equipment are less stringently applied to heritage assets. In particular there is no requirement to obtain valuations from a qualified valuer and when appropriate, heritage assets are carried at their insurance valuations. In addition there is no requirement to depreciate heritage assets that have indefinite lives and high residual values.

The 2010/11 Code introduced new accounting arrangements. Under IFRS there is a requirement to introduce component accounting as a prospective change. Component accounting is applied to new assets and assets that are revalued where the carrying value of the asset is in excess of £3m.

Groups of similar assets that are below the £3m de-minimus for componentisation are considered for componentisation if they are collectively above the de-minimus. Only components with a historic cost equal to 20% or more of the historic cost of the total asset will be recognised as components. Where the historic cost of an asset is not known, current cost is used as an approximation.

Assets are only componentised for components above de-minimus level that have different useful lives.

When a part of an asset is replaced, the part that is replaced is derecognised.

Valuations are normally based on market values. Depreciated Replacement Cost is used for specialised assets, but only where there is no market based evidence of fair value.

With the exception of Investment Properties, losses on revaluation and impairments are taken initially to the Revaluation Reserve and only to the Comprehensive Income and Expenditure Statement where the balance on the reserve falls to zero. Any gains or losses on Investment Properties are debited or credited to the Comprehensive Income and Expenditure Statement directly.

## PORTSMOUTH CITY COUNCIL Annual Report 2011/12

### Impairment

The values of each category of assets and of material individual assets are reviewed at the end of each financial year for evidence of reduction in value. All impairment losses on revalued assets are recognised in the Revaluation Reserve up to the amount of the Revaluation Reserve for each respective asset. Any excess impairment is charged to the relevant service within the Comprehensive Income and Expenditure Statement. All impairment losses incurred on non revalued assets are to be charged to the relevant service within the Comprehensive Income and Expenditure Statement.

### Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis over each asset's useful economic life.

Land	- Not depreciated
Buildings	- Generally 60 years
Vehicles, Plant & Equipment	- Generally 10 years or less
IT Equipment	- 5 years
Environmental enhancements to land	- 10 years
Other infrastructure	- 40 years
Community assets	- Not depreciated
Assets Under Construction	- Not depreciated
Heritage Assets	- Same basis as property, plant & equipment; apart from assets with indefinite lives & high residual values which are not depreciated
Surplus & non-operational property	- Not depreciated

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

### Disposal of Non-current Assets

When an asset is disposed of or decommissioned, the residual value of the asset less any sale proceeds that are received is written off to Comprehensive Income & Expenditure Statement as a gain or loss on disposal. Gains and losses on disposal are reversed out in the Movement in Reserves Statement through an appropriation to or from the Capital Adjustment Account, thus avoiding any impact on the level of the Council Tax.

Any revaluation gains from disposed assets in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Proceeds of sales in excess of £10,000 are categorised as capital receipts and are credited to the Usable Capital Receipts Reserve. Where a disposal is related to a council tenant exercising their "right to buy", 75% of the proceeds must be paid to the Government pool.



## **PORTSMOUTH CITY COUNCIL**

### **Annual Report 2011/12**

#### **Non-current Asset Accounting**

Service revenue accounts, support services and trading accounts are debited with the following types of charge to reflect the cost of consumption of non-current Assets during the year.

- Depreciation attributable to the non-current Assets used by the relevant service;
- Impairment losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- Amortisation of intangible non-current Assets attributable to the front-line service, support service or trading service.

Under statutory instrument, the City Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. It is required however to make annual provision from revenue to contribute towards the reduction of its borrowing requirement (equal to 4% of the underlying amount measured by the adjusted Non-HRA Capital Financing Requirement), when calculating the Council Tax. The Council also makes an additional provision to provide for the principal element of finance leases including service concession arrangements prior to the expiry of the lease. Accordingly depreciation, impairment and amortisation charges are replaced by a revenue provision for debt repayment in the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account.

#### **Investment Properties**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms-length. Investment properties are not depreciated, but are carried at values that reflect market conditions. The market yield of investment properties is assessed annually. Gains and losses on revaluation are posted to the Income, Expenditure and Changes in the Fair Value of Investment Properties heading in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposals.

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **Heritage Assets**

The Authority's heritage assets include historic buildings, sculptures, memorials, museum collections, archives and the civic plate which are held principally for their contribution to knowledge and culture. Heritage assets are recognised and measured (including the treatment of gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**a) Historic Buildings**

Eastney Beam Engine House and Charles Dickens' birthplace are carried in the Councils balance sheet at their market value based on existing use. Both assets are revalued every five years by the Council's valuation staff.

There is insufficient evidence of what the market value would be for Southsea Castle and the fortifications at the harbour entrance at Old Portsmouth so these assets are carried in the Councils balance sheet at their insurance valuations. These valuations are reviewed every five years by the Council's staff

Charles Dicken's Birthplace and Eastney Engine House are depreciated over extended lives. The other historic buildings are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

The Authority does not (normally) make any purchases of historic buildings.

**b) Sculptures**

There is insufficient evidence of what the market value would be for the Jubilee Fountain, Sails of the South and Tipner Bridge masts so these assets are valued on a depreciated replacement cost basis every five years.

The Authority does not (normally) commission major civic sculptures.

Other sculptures are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

**c) Memorials**

The Authority considers that obtaining valuations for the vast majority of its memorials would involve disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. This is because of the diverse nature of the memorials and their relatively small size.

The Authority does own a small number of more significant memorials, namely the war memorial in Guildhall Square and the memorial of Lord Montgomery near Avenue de Caen. These are carried in the Councils Balance Sheet at their insurance valuations which are reviewed every five years.

The memorials are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

Acquisitions are valued at cost or, if bequeathed or donated at nil consideration.

**d) Museum Collections**

The museum collections are reported in the Balance Sheet at their insurance valuation which is based on current values determined by staff in the museum's service every five years.

The museum collections are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

Acquisitions are initially recognised at cost and donations are recognised at valuation ascertained by the museums' curators.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**e) Archives**

The Authority does not consider that reliable cost or valuation information can be obtained for its archives. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Authority does not recognise these assets in its balance sheet.

**f) Civic Plate**

The civic plate is carried in the balance sheet at its market value. The civic plate was last valued by Bonhams in 2009.

The civic plate is deemed to have an indeterminate life and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

The Authority does not (normally) make or acquire civic plate.

**Impairment and Disposal of Heritage Assets**

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. Heritage assets may occasionally be disposed of, for example items in the museum collections that have doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions for the disposal of property, plant and equipment. Disposal proceeds are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

**Revenue Expenditure Funded from Capital under Statute**

Any expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the Capital Adjustment Account then reverses out the amounts charged. This transfer is performed in the Movement in Reserves Statement so that there is no impact on the level of council tax.

**Intangible Assets**

Intangible assets can include internally generated assets as well as purchased assets. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure is not capitalised).

Intangible fixed assets have been valued at historic cost and are fully amortised over the useful lives of the specific assets. Straight line amortisation is applied. Useful lives for

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

software licences will vary according to the length of the software licence that has been granted, but will generally be five to ten years.

**Government Grants**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the City Council satisfies the conditions of entitlement to the grants / contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant has been given has been incurred. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied specific revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant), are credited to the Comprehensive Income & Expenditure Statement after Net Operating Expenditure.

Government grants and contributions received for capital expenditure are credited to the Comprehensive Income and Expenditure Statement at the date that the City Council satisfies the conditions of entitlement to the grants / contribution. In order to avoid any impact on the Council Tax an adjustment is made to the General Fund balance in the Movement In Reserves Statement by crediting the Capital Adjustment Account if the grant or contribution has been applied to finance capital expenditure, or by crediting Capital Grants Unapplied if the grant has not been expended by the end of the financial year.

**Inventories**

Inventories are valued at the lower of cost or net realisable value.

**Cash Equivalents**

Investments that are either overnight or instant access are deemed to be cash equivalents.

**Provisions**

The City Council sets aside provisions for specific liabilities that are likely to be incurred but where the amount or timing of the payment cannot yet be determined accurately. Provisions are charged to the appropriate service when the City Council becomes aware that an obligation has arisen, the charge being based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the relevant provisions set up in the Balance Sheet. Provisions are reviewed at the end of each financial year and any adjustment necessary is charged or credited back to the service revenue account originally charged. Where some of the payment required can be recovered from a third party, such as in the case of an insurance claim, the income is credited to the service once receipt of the recovery is certain.

## **PORTSMOUTH CITY COUNCIL**

### **Annual Report 2011/12**

#### **Reserves**

The City Council maintains certain reserves to meet future policy objectives or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is committed, it is charged to the appropriate service in that year, so as to be included in the net cost of services. The reserve is then appropriated back into the general fund balances so that no net charge against Council Tax arises from the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and these do not represent useable resources to the City Council.

#### **Investments**

Investments in subsidiaries are shown in the balance sheet at their net worth. Other Investments are shown in the Balance Sheet at cost, less provision for diminution in value where appropriate.

#### **Leases**

The land and buildings elements of property leases are classified as finance or operating leases separately. Land is classed as an operating lease unless title passes at the end of the lease.

Where substantially all of the risks and rewards relating to the leased property transfer to the City Council, the lease is classified as a finance lease. Finance lease rentals are deemed to create an asset and corresponding liability initially measured as the capital element of the total rentals payable over the lease term. As payments are made, the liability is reduced by the capital element of each rental payment and the cost of finance element is charged to Net Operating Expenditure in the Comprehensive Income & Expenditure Statement.

Non-current Assets recognised under finance leases are accounted for using the policies applied generally to property, plant and equipment, subject to depreciation being charged over the lease term, if this is shorter than the asset's estimated useful life. A finance lease imposes all of the risks and rewards of ownership on the lessee, although title to the asset does not pass until all rental payment obligations have been satisfied.

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rental payments are charged to the relevant service on a straight-line basis over the term of the lease as they become payable.

#### **Support Services & Overheads**

All support costs and overheads are charged to those services benefiting from the supply or service in accordance with the Service Reporting Code of Practice. Total absorption costing is used so that the cost of each service reflects materially all of the direct, indirect and overhead costs that have been incurred in providing the service. This principle does not apply to Corporate & Democratic Core (costs relating to the Council's Democratic nature), and Non-distributed costs (i.e. discretionary benefits awarded to employees retiring early).

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Employee Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include benefits such as wages and salaries, paid annual leave, and flexi time and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements and flexi leave earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Employee Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officers decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

**Retirement Benefits**

The City Council's employees are members of one of two separate pension schemes.

The Teachers' Pension Scheme administered by the Department for Education; or the Local Government Pension Scheme administered by Hampshire County Council.

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

However, arrangements for the teacher's scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service is charged with employer's contributions payable for teachers' pensions in the year.

The Local Government scheme is reported under International Accounting Standard 19 (IAS 19) in these accounts. This means that retirement benefits are charged to the service revenue account when they are earned as opposed to when payments are made to the Hampshire Pension Fund.

## **PORTSMOUTH CITY COUNCIL**

### **Annual Report 2011/12**

The liabilities of the Hampshire County Council (HCC) scheme attributable to the City Council are included in the balance sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of earnings of current employees.

Liabilities are discounted to their current prices, using a discount factor of 4.7% based on the annualised yield over 15 years of AA rated corporate bonds.

The assets of the HCC pension fund attributable to the City Council are included in the Balance Sheet at their fair value:

- Quoted securities – bid values
- Unquoted securities – professional estimate
- Unlisted securities – average of the bid and offer rates
- Property – market value

Statutory provisions limit the City Council to raising Council Tax to cover the cash payable to the two pension funds in the year. An appropriation is therefore made in the Movement in Reserves Statement from the Pensions Reserve account to adjust for contributions paid as distinct from benefits earned.

#### **Long-Term Contracts (PFI Accounting Policy)**

Private Finance Initiative (PFI) contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the property, plant and equipment used under the contracts on the Balance sheet.

The original recognition of this property, plant and equipment was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the property, plant and equipment.

Property, plant and equipment carried on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- Fair value of services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge at a fixed rate on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- Lifecycle replacement costs – recognised as property, plant and equipment on the Balance Sheet

## **PORTSMOUTH CITY COUNCIL Annual Report 2011/12**

### **Events After the Balance Sheet Date**

Events after the balance sheet date are those events that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **Contingent Assets & Liabilities**

Contingent liabilities are disclosed within the notes to the core financial statements if there is a possible obligation that may require a payment or transfer of economic benefits in the future.

Contingent assets are not recognised in the financial statements but are disclosed within the notes if the inflow of a receipt or other economic benefit is probable.

### **Value Added Tax**

Income and Expenditure excludes any amounts relating to VAT as all VAT collected is passed over to HM Revenue & Customs, and all VAT paid is recoverable from them.

### **Interest**

Interest Payable and Receivable is accrued and accounted for in the period to which it relates. The accrued interest associated with loans and investments is shown as part of the carrying value of the loan or investment as opposed to a debtor or creditor.

### **Financial Liabilities**

Gains and losses on the re-purchase or early settlement of borrowing are credited or debited to Net Operating Expenditure in the Comprehensive Income & Expenditure Statement in the year of re-purchase or settlement.

Where premiums and discounts have been charged to the Comprehensive Income & Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The City Council has a policy of spreading the cost of premiums over the term of the replacement loans. The benefit arising from discounts are spread over the lesser of the remaining term of the loan repaid or 10 years. The reconciliation of amounts charged to the Comprehensive Income & Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.



## **PORTSMOUTH CITY COUNCIL Annual Report 2011/12**

### **Instruments entered into before 1st April 2006**

The City Council entered into a number of financial guarantees prior to 1st April 2006 that are not required to be accounted for as financial instruments under the transition rules for Financial Reporting Standard 26 (FRS 26).

#### **Financial assets**

Financial assets are classified into two types:

Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;

Available-for-sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

#### **a) Loans and receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income & Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the City Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

However the City Council has made interest-free loans to home owners to renovate their homes (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income & Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at an effective rate of interest, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income & Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer from the Financial Instruments Adjustment Account to the Movement In Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written-down and a charge made to the Comprehensive Income & Expenditure Statement.

Any gains or losses that arise on the de-recognition of the asset are credited / debited to the Comprehensive Income & Expenditure Statement.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**b) Available for sale Assets**

Equity shares with no quoted market prices are carried at net worth.

**Jointly Controlled Operations**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

**Group accounts**

The group accounts have been consolidated on an acquisition basis. The accounting policy for the group is described in more detail in the Notes to the Group Accounts.

**The Carbon Reduction Commitment Scheme**

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31st March 2014. The Authority is required to purchase allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by paying for allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Landfill Allowances Scheme**

Under the Landfill Allowance Trading Scheme there is a six month reconciliation period. Therefore on 30th September each year the Council will pay the government for its landfill usage from the previous year. The liability to pay the government is shown on the balance sheet as a provision.

**2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED**

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in the accounting policy in relation to the treatment of Financial Instrument Disclosures by the Authority, which will need to be adopted fully by the Authority in the 2012/13 financial statements.

The Authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Authority, in this case, financial instrument disclosures. The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010) by the Code will result in a change in accounting policy.

The amendments to IFRS 7 require additional disclosures relating to the transfer of financial assets. It is likely that this standard will not have a material impact on the financial statements of the Authority.

**3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying its accounting policies, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of the need to close facilities and reduce levels of service provision.
- The Authority is deemed to control the services provided under outsourcing agreements for Milton Cross School, learning disability facilities and highways maintenance, and also to control the residual value of the assets at the end of the agreements. The Authority also provides its waste disposal service through Project Integra which is a partnership with Hampshire County Council and Southampton City Council. The Councils' are deemed to control services which have been outsourced by Project Integra and to control the value of the assets at the end of the agreements. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the assets, including Portsmouth City Council's share of the waste disposal assets, (valued at £11,437k) are recognised as Property, Plant and Equipment on the Council's balance sheet.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

- The Council has made judgements on whether assets are classified as Investment Property or Property Plant and Equipment. Only assets judged to be held solely to earn rentals or for capital appreciation are classified as Investment Properties. Where earning rentals is an outcome of a regeneration policy or providing facilities on out of town housing estates, the properties concerned are accounted for as property, plant and equipment rather than investment property. The classification determines the valuation method used and whether depreciation and impairments are charged to the cost of services.
- The Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The accounting treatment for operating and finance leases is significantly different and could have a significant effect on the accounts.
- The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- The Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty around the results of pending legal actions.
- The Council has made judgements about the level of doubtful debts that it needs to provide for. These judgements are based on historical experience of debtor defaults adjusted for the current economic climate.
- The Council has made judgements about whether it controls voluntary aided and voluntary controlled schools. The Council does not own these land and buildings and has not included them on its balance sheet.

**4. ASSUMPTIONS MADE ON SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The items in the Authority's balance sheet at 31st March 2012 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Property, Plant &amp; Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs & maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs & maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases & the carrying amount of the asset falls.  It is estimated that the annual depreciation charge for buildings would increase by £1.7m for every year that useful lives had to be reduced.
<b>Pensions Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates & expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.
<b>Arrears</b>	At 31st March 2012, the Authority had a balance for sundry debtors for £17,007k. A review of significant balances suggested that an impairment of doubtful debts of 21% (£3,614k) was appropriate. However in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £3.6m to set aside as an allowance.

**5. MATERIAL ITEMS OF INCOME AND EXPENSE**

The profitability of the International Port is dependent upon the continued use of the ferry port by three main customers, namely Brittany Ferries, Condor Ferries and LD Lines. Operator agreements are in place with two of the companies which make provision for minimum guaranteed levels of income; this offers some degree of protection to the annual stream of income received by the port, but represents a small percentage of the normal turnover. Annual turnover of the port amounts to £17m.

**6. EVENTS AFTER THE BALANCE SHEET DATE**

Post balance sheet events have been considered up to the time of the accounts authorisation.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**7. ADJUSTMENTS OF ACCOUNTING AND FUNDING BASIS UNDER REGULATIONS**

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

2011/12	Usable Reserves						Total Usable Reserves £'000	Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>								
<b>- Analysis Adjustments involving the Capital Adjustment Account:</b>								
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Charges for depreciation and impairment of non current assets	(31,180)		(378)				(31,558)	31,558
Movements in the market value of Investment Properties	244		22				266	(266)
Amortisation of intangible assets	(366)						(366)	366
Revenue expenditure funded from capital under statute	(310)		(88,619)		(102)		(89,031)	89,031
Amounts of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the CIES	(4,975)		(595)				(5,570)	5,570
<b>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Statutory provision for the financing of capital investment	9,125						9,125	(9,125)
Repayment of transferred debt	667						667	(667)
Capital expenditure charged against the General Fund and HRA balances	652						652	(652)
<b>Adjustments involving the Capital Grants Unapplied Account:</b>								
Capital grants and contributions unapplied credited to CIES	12,882		2,974			(15,856)	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account						13,226	13,226	(13,226)
<b>Adjustments involving the Capital Receipts Reserve:</b>								
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	7,597		1,297		(6,333)		2,561	(2,561)
Loan Repayments					(830)		(830)	830
Use of Capital Receipts Reserve to finance new capital expenditure					4,478		4,478	(4,478)
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals							0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(779)				779		0	0
<b>Adjustments involving the Major Repairs Reserve:</b>								
Reversal of Major Repairs Allowance credited to the HRA			(1,355)	(12,054)			(13,409)	13,409
Use of Major Repairs Reserve to finance new capital expenditure				17,734			17,734	(17,734)
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>								
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	197		68				265	(265)
<b>Adjustments involving the Pensions Reserve</b>								
Reversal of items relating to retirement benefits debited or credited to the CIES	(22,113)		(1,737)				(23,850)	23,850
Employer's pension contributions and direct payments to pensioners payable in the year	18,798		1,451				20,249	(20,249)
<b>Adjustments involving the Collection Fund Adjustment Account:</b>								
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(1,077)						(1,077)	1,077
<b>Adjustment involving the Accumulated Absences Account:</b>								
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	189		17				206	(206)
<b>Adjustment involving the Revaluation Reserve:</b>								
Depreciation of non-current asset revaluation gains							0	0
<b>Adjustments involving the Capital Receipts Deferred Account:</b>								
Mitigation of lost revenue from operating leases being reclassified as finance leases under SI454/2011	(586)						(586)	586
Adjustments between accounting basis & funding basis under regulations	(11,035)	0	(86,855)	5,680	(2,008)	(2,630)	(96,848)	96,848

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

2010/11	Usable Reserves						Total Usable Reserves £'000	Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>								
<b>- Analysis Adjustments involving the Capital Adjustment Account:</b>								
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Charges for depreciation and impairment of non current assets	(37,852)		(193,684)				(231,536)	231,536
Revaluation losses on Property Plant and Equipment							467	(467)
Movements in the market value of Investment Properties	395		72				(335)	335
Amortisation of intangible assets	(335)						0	0
Capital grants and contributions applied							0	0
Movement in the Donated Asset Account							0	0
Revenue expenditure funded from capital under statute	(1,133)		(27)				(1,160)	1,160
Amounts of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the CIES	(458)		(1,302)				(1,760)	1,760
<b>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Statutory provision for the financing of capital investment	8,418						8,418	(8,418)
Repayment of transferred debt	695						695	(695)
Capital expenditure charged against the General Fund and HRA balances	4,267						4,267	(4,267)
<b>Adjustments involving the Capital Grants Unapplied Account:</b>								
Capital grants and contributions unapplied credited to CIES	20,836		162			(20,998)	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account						21,416	21,416	(21,416)
<b>Adjustments involving the Capital Receipts Reserve:</b>								
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	923		1,993		(2,916)		0	0
Loan Repayments					(238)		(238)	238
Use of Capital Receipts Reserve to finance new capital expenditure					3,499		3,499	(3,499)
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals			(26)		26		0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,098)				1,098		0	0
<b>Adjustments involving the Major Repairs Reserve:</b>								
Reversal of Major Repairs Allowance credited to the HRA			(1,411)	(11,727)			(13,138)	13,138
Use of Major Repairs Reserve to finance new capital expenditure							0	0
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>								
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	70		58				128	(128)
<b>Adjustments involving the Pensions Reserve</b>								
Reversal of items relating to retirement benefits debited or credited to the CIES	56,023		(2,173)				53,850	(53,850)
Employer's pension contributions and direct payments to pensioners payable in the ye	18,291		1,461				19,752	(19,752)
<b>Adjustments involving the Collection Fund Adjustment Account:</b>								
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(1,142)						(1,142)	1,142
<b>Adjustment involving the Unequal Pay Back Pay Adjustment Account:</b>								
Amount by which the amounts charged for Equal Pay claims to the CIERS are different from the cost of settlements chargeable in the year in accordance with statutory requirements							0	0
<b>Adjustment involving the Accumulated Absences Account:</b>								
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(390)		(143)				(533)	533
<b>Adjustment involving the Revaluation Reserve:</b>								
Depreciation of non-current asset revaluation gains							0	0
<b>Adjustments involving the Capital Receipts Deferred Account:</b>								
Mitigation of lost revenue from operating leases being reclassified as finance leases under S1454/2010	(553)						(553)	553
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	<b>66,957</b>	<b>0</b>	<b>(195,020)</b>	<b>(11,727)</b>	<b>1,469</b>	<b>418</b>	<b>(137,903)</b>	<b>137,903</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**8. TRANSFERS TO / FROM EARMARKED RESERVES**

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2011/12.

	Balance at 1st April 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31st March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31st March 2012 £000
<b>General Fund:</b>							
Earmarked for Capital Purposes	(7,906)	1,517		(6,389)		(4,128)	(10,517)
Medium Term Resource Strategy Reserve	(8,682)		(3,392)	(12,074)	1,454		(10,620)
Private Finance Initiative Reserve	(20,887)	220		(20,667)	1,168		(19,499)
Other	(8,805)		(662)	(9,467)		(2,424)	(11,891)
<b>Total</b>	<b>(46,280)</b>	<b>1,737</b>	<b>(4,054)</b>	<b>(48,597)</b>	<b>2,622</b>	<b>(6,552)</b>	<b>(52,527)</b>
<b>HRA:</b>							
HRA Capital Reserve	(4,122)		(1,018)	(5,140)		(3,500)	(8,640)
	<b>(50,402)</b>	<b>1,737</b>	<b>(5,072)</b>	<b>(53,737)</b>	<b>2,622</b>	<b>(10,052)</b>	<b>(61,167)</b>

Earmarked for Capital Purposes - this reserve has been accumulated from Revenue contributions to be used as a source of finance for future capital expenditure.

Medium Term Resource Strategy Reserve - is used to finance spend-to-save schemes in pursuit of the City Council's medium term aims.

Private Finance Initiative - this reserve consists of the difference between contributions and grant receipts and charges on Private Finance Initiative schemes. The surplus of contributions and grant income accumulated in the early years of the schemes will finance the shortfall in later years as charges grow to exceed contributions and grant receipts

Housing Revenue Account Capital Reserve - originally established in 1991/92 as part of the Housing Investment Programme financing policy. This reserve is used to finance capital investment in social housing.



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**9. PROPERTY, PLANT & EQUIPMENT**

**Movements on Balances: Comparative Movements in 2010/11**

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Other Land and Buildings - Surplus £000	Assets Under Construction £000	Total £000
<b>Cost or Valuation</b>								
At 1st April 2010	698,738	494,347	53,439	113,518	1,232	2,253	44,735	1,408,262
Additions	0	0	0	0	0	0	61,907	61,907
Disposals	(1,484)	(5,835)	(674)	(867)	0	(54)	0	(8,914)
Revaluations	(11,704)	(15,160)	(4,443)	692	143	(655)	0	(31,127)
Reclassifications	12,036	36,571	6,155	5,779	177	(1,204)	(68,693)	(9,179)
At 31st March 2011	697,586	509,923	54,477	119,122	1,552	340	37,949	1,420,949
<b>Depreciation</b>								
At 1st April 2010	0	(9,384)	(15,760)	(17,976)	0	0	0	(43,120)
Charge in Year	(11,727)	(8,749)	(5,952)	(3,113)	0	0	0	(29,541)
Disposal	25	0	428	793	0	0	0	1,246
Revaluations	11,702	8,143	8,135	0	0	0	0	27,980
At 31st March 2011	0	(9,990)	(13,149)	(20,296)	0	0	0	(43,435)
<b>Impairment</b>								
At 1st April 2010	(81,703)	(97,895)	(77)	(3,996)	0	(206)	0	(183,877)
Charge in Year	(192,619)	(22,049)	(303)	(132)	(20)	(59)	0	(215,182)
Disposal	174	5,796	247	74	0	1	0	6,292
Reclassifications	0	1,513	0	0	0	175	0	1,688
At 31st March 2011	(274,148)	(112,635)	(133)	(4,054)	(20)	(89)	0	(391,079)
<b>Net Book Value</b>								
At 1st April 2010	617,035	387,068	37,602	91,546	1,232	2,047	44,735	1,181,265
At 31st March 2011	423,438	387,298	41,195	94,772	1,532	251	37,949	986,435

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Movements in 2011/12**

	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant and Equipment £000</b>	<b>Infrastructure Assets £000</b>	<b>Community Assets £000</b>	<b>Other Land and Buildings – Surplus £000</b>	<b>Assets Under Construction £000</b>	<b>Total £000</b>
<b>Cost or Valuation</b>								
At 1st April 2011	697,586	509,923	54,477	119,122	1,552	340	37,949	1,420,949
Additions	0	268	318	0	0	0	43,424	44,010
Disposals	(1,079)	(3,297)	(2,715)	(278)	0	0	0	(7,369)
Revaluations	(12,044)	(2,528)	(1,342)	(414)	802	(12)	0	(15,538)
Reclassifications	17,674	14,967	4,591	15,855	88	303	(53,084)	394
<b>At 31st March 2012</b>	<b>702,137</b>	<b>519,333</b>	<b>55,329</b>	<b>134,285</b>	<b>2,442</b>	<b>631</b>	<b>28,289</b>	<b>1,442,446</b>
<b>Depreciation</b>								
At 1st April 2011	0	(9,990)	(13,149)	(20,296)	0	0	0	(43,435)
Charge in Year	(12,055)	(8,123)	(5,961)	(3,311)	0	0	0	(29,450)
Disposal	19	8	82	212	0	0	0	321
Revaluations	12,044	2,164	1,826	414	0	0	0	16,448
Reclassifications	(8)	8						0
<b>At 31st March 2012</b>	<b>0</b>	<b>(15,933)</b>	<b>(17,202)</b>	<b>(22,981)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(56,116)</b>
<b>Impairment</b>								
At 1st April 2011	(274,148)	(112,635)	(133)	(4,054)	(20)	(89)	0	(391,079)
Charge in Year	115	(15,384)	(139)	(103)	(33)	0	0	(15,544)
Disposal	424	1,872	71	66	0	0	0	2,433
Reclassifications	(52)	(387)	0	0	0	(253)	0	(692)
<b>At 31st March 2012</b>	<b>(273,661)</b>	<b>(126,534)</b>	<b>(201)</b>	<b>(4,091)</b>	<b>(53)</b>	<b>(342)</b>	<b>0</b>	<b>(404,882)</b>
<b>Net Book Value</b>								
At 1st April 2011	423,438	387,298	41,195	94,772	1,532	251	37,949	986,435
At 31st March 2012	428,476	376,866	37,926	107,213	2,389	289	28,289	981,448

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Tangible fixed assets have been valued as follows:

A)	Council dwellings	Existing use value – social housing reflecting the guidance issued by DCLG
B)	Other Land & Buildings	Existing use value
C)	Infrastructure	Historic cost depreciated as appropriate
D)	Vehicles & Plant	Net current replacement cost
E)	Community assets other than land	Historic cost depreciated as appropriate
F)	Community assets land	Historic cost depreciated as appropriate
G)	Non-operational assets	Market value

Where no market evidence is available to establish market value, e.g. for the Guildhall, the depreciated replacement cost method of valuation has been used. Community Centre assets have been valued at market value.

A five year rolling programme of revaluations is undertaken for all assets except council dwellings, which are revalued annually. All valuations have been carried out by Royal Institute of Chartered Surveyors (RICS) qualified staff from the Council's Asset Management Service in accordance with the practice statements and guidance notes contained in the RICS manual of Appraisal and Valuation 5th Edition 2003 (as amended). The assets are valued as at 31st March 2012.

The beacon principle has been used to value the HRA council housing stock. A sample property "the Beacon" is selected from a group of properties that are of similar design, age, type or construction and a detailed valuation carried out. The valuation is then applied to all properties in that group. The basis of valuation is Existing Use Value for Social Housing. EUV-SH uses the vacant possession value of the dwelling as a starting point, on the assumption that each property is to be used as residential accommodation that will be occupied by a secure tenant. This figure is then amended by a regional adjustment factor of 32% to reflect the fact that sitting tenants enjoy lower than open market rents and rights, including Right to Buy. HRA non-dwelling properties use the existing use value (EUV) method of valuation for non-specialist operational properties, and depreciated replacement cost (DRC) for specialist operational properties.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**10. DATES AND AMOUNTS OF VALUATIONS OF TANGIBLE NON-CURRENT ASSETS**

	Property, Plant & Equipment						Investment Property	Held for Sale	Assets Under construction	Total
	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	community Assets	Surplus Assets				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2011/12	428,476	36,050	8,445	16,576	1,024	38	5,425	-	-	496,034
2010/11	-	101,629	7,535	17,096	1,331	-	5,893	5,764	-	139,248
2009/10	-	126,444	12,537	65,755	13	250	12,406	1,368	-	218,773
2008/09	-	110,616	8,936	2,424	21	1	9,639	960	-	132,597
Valued at Historic Cost	-	2,127	473	5,362	-	-	5	-	28,289	36,256
	<b>428,476</b>	<b>376,866</b>	<b>37,926</b>	<b>107,213</b>	<b>2,389</b>	<b>289</b>	<b>33,368</b>	<b>8,092</b>	<b>28,289</b>	<b>1,022,908</b>

**Depreciation**

Depreciation is calculated on a straight-line basis against gross book value, less any estimated residual value, over the asset's estimated useful economic life. No depreciation is charged in the year of acquisition or commissioning. Land is considered to have an infinite life and is therefore not depreciated. The assets lives are reviewed within the five year revaluation programme.

The useful lives used to calculate depreciation for each category of tangible asset are:

- A) **Council Dwellings** - As for the major repairs allowance.
- B) **Buildings** - Sixty years unless assessed by the valuer for a lesser period
- C) **Vehicles, Plant & Machinery** - Generally ten years; less for some assets depending on the nature of use.
- D) **IT Equipment** - Five years
- E) **Infrastructure assets** - Forty years except for environmental improvements and enhancements where ten years has been used.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**11. INFORMATION ON ASSETS HELD**

<b>Fixed assets owned by the City Council include the following:</b>	<b>31st March 2011</b>	<b>31st March 2012</b>
Nursery schools	1	1
Primary schools	48	48
Secondary schools	6	6
Special schools	5	5
Pupil referral units	0	0
Professional centre	1	1
Residential homes for children	4	4
Residential homes for older people	6	5
Residential homes for people with physical disabilities	1	1
Residential homes for people with learning disability	1	1
Family resource centres	3	3
Youth Justice centre	1	1
Day centres for older people	1	1
Day care centres for people with disabilities	1	1
Training centres for adults with learning disability	4	4
Housing area offices	8	8
Council dwellings	15,161	15,184
Civic offices	1	1
Guildhall	1	1
Carers centre	1	1
Public conveniences	28	28
Community centres	14	15
Adventure playgrounds	6	6
Golf courses	2	2
Allotments	67 acres	67 acres
Leisure centres without pools	2	2
Swimming pools	2	2
Youth centres	3	3
Outdoor activity centres	1	1
Museums & galleries	8	8
Arts centres	0	0
Libraries	9	9
Market	2	2
Cemeteries	3	3
Spinnaker Tower	1	1
Cranes (leased MMD)	2	2
Ferry terminals	2	2
Ferry port berths	5	5
Linkspan bridges	6	6
Long-term car park in commercial port	1	1
Commercial properties	1,396	1,401
Business Centres	3	3
Industrial/Training unit (PCMI) (Housing)	1	1
Tourist information centres	2	1
Off-street car parks	27	26

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**12. SIGNIFICANT COMMITMENTS FOR FUTURE CAPITAL EXPENDITURE**

**(a) Future Approved Capital Programme**

The Authority's approved capital programme by service shows planned capital payments in future years as follows:

<b>Capital Programme</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>	<b>Later £000</b>
Culture, Leisure & Sport	3,645	478	300	200
Children & Education	15,491	7,007	7,000	7,599
Community Safety	184			
Environment	1,821	633	22,000	45,597
Health & Social Care (Adults Services)	790	3,160	2,605	525
Resources	8,205	264		
Millennium	917	90		
Planning, Regeneration & Economic Development	2,286	1,000	2,000	11,500
Commercial Port	4,799	170		
Housing Investment Programme	28,711	36,314	29,608	89,049
Traffic & Transportation	24,195	21,316	8,909	48,779
<b>Total Capital Programme</b>	<b>91,044</b>	<b>70,432</b>	<b>72,422</b>	<b>203,249</b>

**(b) Contractual Commitments**

The Authority was legally committed to the following significant capital contracts at 31st March 2012:

<b>Capital Contracts</b>	<b>£000</b>
Replacement of community centre	1,352
Building of Houses and Retail Units in Somerstown	1,859

**13. INVESTMENT PROPERTIES**

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.

<b>Investment Properties</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Rental Income from Investment Property	4,398	4,023
Direct operating expenses arising from Investment Property	(100)	(114)
<b>Net gain / (loss)</b>	<b>4,298</b>	<b>3,909</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The following table summarises the movement in the fair value of investment properties over the year.

<b>Investment Properties</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Balance at start of year	32,714	33,372
Disposals	(15)	(84)
Net gains / losses from fair value adjustments	468	266
Reclassifications	205	(185)
<b>Balance at end of year</b>	<b>33,372</b>	<b>33,369</b>

**14. INTANGIBLE ASSETS**

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the software item of Property, Plant and Equipment.

The carrying amount of intangible assets is amortised on a straight-line-basis over the useful lives of the specific assets, which are normally between one and twenty years.

The movement on intangible asset balances during the year is as follows:

<b>Intangible Assets</b>	<b>2010/11</b>			<b>2011/12</b>		
	<b>Internally Generated Assets £000</b>	<b>Other Assets £000</b>	<b>Total £000</b>	<b>Internally Generated Assets £000</b>	<b>Other Assets £000</b>	<b>Total £000</b>
Balance at start of year:						
Gross Carrying Amounts	0	3,103	3,103	0	3,300	3,300
Accumulated amortisation	0	(1,540)	(1,540)	0	(1,879)	(1,879)
Net carrying amount at start of year	0	1,563	1,563	0	1,421	1,421
Additions:						
Internal development	0	0	0	0	0	0
Purchases	0	0	0	0	0	0
Other disposals carrying amount	0	0	0	0	(4)	(4)
Other disposals accumulated amortisation	0	0	0	0	4	4
Impairment	0	(847)	(847)	0	(4)	(4)
Reclassifications	0	1,044	1,044	0	301	301
Amortisation for the period:						
Charge to net cost of services	0	(339)	(339)	0	(366)	(366)
<b>Net carrying amount at end of year</b>	<b>0</b>	<b>1,421</b>	<b>1,421</b>	<b>0</b>	<b>1,352</b>	<b>1,352</b>
Comprising:						
Gross Carrying Amounts	0	3,300	3,300	0	3,597	3,597
Accumulated amortisation	0	(1,879)	(1,879)	0	(2,245)	(2,245)
	<b>0</b>	<b>1,421</b>	<b>1,421</b>	<b>0</b>	<b>1,352</b>	<b>1,352</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**15. FINANCIAL INSTRUMENTS**

**a) Financial Instrument Balances**

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

<b>Borrowings and Investments</b>	<b>Long-Term</b>		<b>Current</b>	
	<b>31st March 2011 £000</b>	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>	<b>31st March 2012 £000</b>
Financial liabilities at amortised cost	(281,525)	(449,877)	(77,416)	(67,694)
Loans & receivables	43,650	26,320	120,290	261,924
Available for sale	10,119	10,270		

The above balances are shown net of impairments. There are no impairments in the Council's financial instruments apart from current loans and receivables. Impairments to current loans and receivables were £5,908k at 31st March 2012 (£5,577k at 31st March 2011). All outstanding debt is pursued until such time as it becomes uneconomic or disproportionate to the administrative effort required. The Council only holds collateral in relation to debts arising from commercial tenancies.

The loans and receivables figures in the table above include interest free loans. £6,460k has been advanced to enable private dwellings to be improved to a decent standard. Interest will accrue on these loans after an initial five year period. Certain social care clients are allowed to defer their payments to the Council without interest being charged and £1,014k was outstanding at 31st March 2012.

The Council has lodged £550k with Lloyds TSB to secure banking facilities for its subsidiary company, MMD (Shipping Services) Ltd. These funds may not be returned if MMD (Shipping Services) Ltd defaults on its obligations to Lloyds TSB.

The Council is acting as guarantor for £3.1m of loan obligations to Southsea Community Leisure Limited. Southsea Community Leisure Limited will use or have used the loan to renovate the Pyramids Leisure Centre. The fair value of this guarantee that has been provided for is £2.6m.



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**b) Financial Instruments Gains / Losses**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

<b>2010/11</b>	<b>Financial Liabilities</b>	<b>Financial Assets</b>	
	<b>Measured at Amortised Cost £000</b>	<b>Loans &amp; Receivables £000</b>	<b>Total £000</b>
Interest expense	19,123	-	
Impairment Losses	-	877	
Interest Payable & Similar Charges	19,123	877	20,000
Interest & Investment Income	-	(4,863)	(4,863)
<b>Net gain / (loss) for the year</b>	<b>19,123</b>	<b>(3,986)</b>	

<b>2011/12</b>	<b>Financial Liabilities</b>	<b>Financial Assets</b>	
	<b>Measured at Amortised Cost £000</b>	<b>Loans &amp; Receivables £000</b>	<b>Total £000</b>
Interest expense	21,360	-	
Impairment Losses	-	908	
Interest Payable & Similar Charges	21,360	908	22,268
Interest & Investment Income	-	(3,778)	(3,778)
<b>Net gain / (loss) for the year</b>	<b>21,360</b>	<b>(2,870)</b>	

The Authority owns a stevedoring company. As the company is currently generating cash it is carried in the balance sheet at its net worth. The net worth of the company increased by £151k from £10,119k to £10,270k in 2011/12. This gain has been recognised through the Comprehensive Income and Expenditure Statement.

**c) Fair Value of Assets and Liabilities Carried at Amortised Cost**

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The fair value of loans has been calculated by reference to the PWLB's "premature repayment" rates in force on 31st March.
- Estimated interest rate for long term debtors is the rate for a PWLB loan of similar duration
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The fair value of trade and other receivables is taken to be the invoiced or billed amount  
The fair values calculated are as follows:

	31st March 2011		31st March 2012	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial Liabilities	(358,491)	(438,796 Restated)	(517,571)	(656,535)

The fair value of financial liabilities as at 31<sup>st</sup> March 2011 is restated from £358,491k following the discovery of an error arising from the omission of interest costs on service concessions.

The fair value is more than the carrying amount because the Authority's liabilities includes a number of financial instruments where the interest rate payable is higher than the rates that would be applied to calculate the premiums if the loans were repaid on the balance sheet date. This commitment to pay interest above current market rates increases the amount that the Authority would have to pay if it repaid the loans early.

	31st March 2011		31st March 2012	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and Receivables	163,940	171,258	288,244	310,903

The fair value is higher than the carrying amount because the Authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above current market rates increases the amount that the Authority would receive if it agreed to early repayment of the loans.

**d) Disclosure of the Nature and Extent of Risks Arising from Financial Instruments**

The Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

The Authority's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by Portsmouth City Council in the Annual Treasury Management Strategy.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's or Standard & Poor rating services. All investments with the exception of lending to the Council's subsidiary, MMD (Shipping Services) Ltd, had an A credit rating. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution.

Investments are only placed with financial institutions that are domiciled in states with an AAA credit rating.

Customers are assessed; taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with parameters set by Portsmouth City Council.

The Authorities maximum exposure to credit risk in relation to its investments in banks and building societies of £238m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Authority's deposits, but there was no evidence at the 31st March 2012 that this was likely to crystallise.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability, adjusted to reflect current market conditions. Council tax and non-domestic rates are excluded from the table below, as they are not financial instruments. This is because they are statutory debts and do not arise from contracts.

	<b>Amount at 31st March 2012 (Net of bad debt provision) £000</b>	<b>Historical Experience of Default %</b>	<b>Historical Experience Adjusted for Market Conditions at 31st March 2012 %</b>	<b>Estimated Maximum Exposure to Default &amp; Uncollectability at 31st March 2012 £000</b>	<b>Estimated Maximum Exposure at 31st March 2011 £000</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>(A x C)</b>	
Deposits with commercial companies	2,533	0.0	5.0	127	8
Customers	17,205	22.3	22.3	3,837	3,465
Housing rents	2,898	5.4	5.4	156	467
Housing mortgages	6,618	0.0	11.0	728	0
Other long term debtors	17,321	0.0	0.0	0	0
				<b>4,851</b>	<b>3,940</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The credit agencies have down rated many financial institutions over the last few years. A concern expressed by the credit rating agencies is the Banking Act 2009. The Banking Act 2009 gives the Authorities greater flexibility to resolve financial institutions problems, which for example could lead to different treatment of wholesale senior unsecured debt, including the Council's investments, compared to other liabilities. Consequently at 31st March 2012 the Council had £9.8m invested with institutions that met the Council's investment criteria at the time the investment was made, but no longer meet the Council's criteria.

The Authority does not generally allow credit for customers, such that £3.8m of the £27.0m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	<b>£000</b>
Less than three months	1,058
Three to six months	301
Six months to one year	403
More than one year	2,078
	<b>3,840</b>

**Liquidity Risk**

As the Authority has ready access to borrowings through the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

£11m of the Authority's borrowing is through a lender's option borrower's option (LOBO) loan. Under this arrangement Depfa ACS Bank has the option to increase the interest rate every two years. If Depfa ACS were to increase the interest rate, the Authority has the right to repay the loan without penalty. If Depfa ACS did exercise their option it is likely that the Authority would have to pay a higher interest rate if it did choose to replace the loan.

The remainder of the Authority's borrowing consists of fixed rate PWLB debt. These loans have a weighted average remaining term of 40 years. In real terms the value of the debt will be substantially eroded through the remainder of its term by inflation. The PWLB also allows debt to be rescheduled prior to maturity although this may necessitate paying a premium to the PWLB.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Borrowing is as follows:

	31st March 2011 £000	31st March 2012 £000
Within 1 year	339	3,351
Between 1 and 2 years	12,685	3,351
Between 2 and 5 years	5,054	10,054
More than 5 years	172,995	344,769
	<b>191,073</b>	<b>361,525</b>

**Market Risk**

**Interest Rate Risk**

The Authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – no impact apart from the LOBO loan that is subject to an interest rate review by the lender in March 2013
- Borrowings at fixed rates – the fair value of the borrowings will fall
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise
- Investments at fixed rates – the fair value of investments will fall. Where fixed rate investments have short maturities, the effect will be similar to that for variable rate investments, as the replacement investments will generate more income to the Comprehensive Income and Expenditure Statement.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments that have a quoted price will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The Authority's policy is to aim to limit its short term and variable interest rate investments to £378m in 2012/13. The Authority also aims to manage its investment maturity profile to ensure that no single month exposes the Authority to a substantial re-investment requirement when interest rates may be relatively low.

The treasury management team has an active strategy for assessing interest rates. This allows adverse changes to be accommodated. The analysis will also advise whether new borrowing and investment taken out is fixed or variable.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

According to this assessment strategy, at 31st March 2012, if interest rates had been 0.5% higher with all other variables held constant, the financial effect would be an increase in investment income of £1,113k. The impact of a 0.5% fall in interest rates would have been a reduction in investment income of £1,113k. With base rate now at 0.5% and most of the Council's budget risk being on the investment side of the treasury management operation it is felt that 0.5% is a more appropriate basis for sensitivity analysis than 1%. This is because most of the Council's borrowing consists of long term fixed rate loans, and all of its investments are short term.

Price Risk

The Authority does not generally invest in equity shares but did acquire a stevedoring company based at the commercial port on 29th February 2008. The Authority is consequently exposed to losses arising from movements in the value of the shares. The company is carried in the balance sheet on the basis of its net worth of £10,270k. Changes in the value of the company are reported through the Comprehensive Income and Expenditure Statement.

As the shareholdings have arisen in the acquisition of specific interests, the Authority is not in a position to limit its exposure to price movements by diversifying its portfolio.

The shares are all classed as "available for sale", meaning that all movements in value will impact on gains and losses recognised in the Comprehensive Income and Expenditure Statement.

Foreign Exchange Risk

The Council has a Euro denominated bank account. The balance on this Account had a value of £236k in Sterling. If the value of Sterling strengthens against the Euro, the Sterling value of this account will fall, but if Sterling weakens against the Euro, the Sterling value of this account will rise.

**16. CONSTRUCTION CONTRACTS**

The City Council did not undertake any construction contracts for outside bodies in 2011/12.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**17. SHORT-TERM DEBTORS**

2011 £000	Outstanding Debtors at 31st March (Net of Bad Debt Provision)	2012	
		£000	£000
15,484	Central Government Bodies		5,861
748	Other local authorities		2,416
9,375	Council Tax	9,984	
( 4,839)	Less Impairment Allowance	( 5,450)	
4,536			4,534
5,502	Housing Rents	5,745	
( 2,799)	Less Impairment Allowance	( 2,847)	
2,703			2,898
7,292	Housing Benefits	8,304	
(3,916)	Less Impairment Allowance	(4,147)	
3,376			4,157
15,204	Other	17,007	
(5,522)	Less Impairment Allowance	(3,614)	
9,682			13,393
<b>36,529</b>			<b>33,259</b>

Other debtors shown in the table above includes £1.3m of capital receipts.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**18. CASH AND CASH EQUIVALENTS**

The balance of Cash and Cash Equivalents is made up of the following elements:

31st March 2011 £000		31st March 2012 £000
172	Cash held by the Authority	164
(3,521)	Bank current accounts	(1,834)
3,975	Instant access bank deposit accounts	0
24,265	Investments in money market funds	72,925
<b>24,891</b>		<b>71,255</b>

**19. ASSETS HELD FOR SALE**

	2010/11 £000	2011/12 £000
<b>Balance Outstanding at start of year</b>	<b>2,055</b>	<b>9,024</b>
Assets newly classified as Held for Sale		
- Property, Plant and Equipment	6,253	0
- Intangible Assets	0	0
- Other Assets / Liabilities in Disposal groups	0	0
Revaluation gains	1,006	0
Assets declassified as Held for Sale:		
- Property, Plant and Equipment	0	(62)
- Intangible Assets	0	0
- Other Assets / Liabilities in Disposal groups	0	0
Assets sold	(290)	(870)
<b>Balance outstanding at year-end</b>	<b>9,024</b>	<b>8,092</b>



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**20. SHORT-TERM CREDITORS**

2011 £000	Outstanding Creditors at 31st March	2012 £000
(18,136)	Central Government Bodies	(9,807)
(4,718)	Other local authorities	(4,343)
(2,205)	NHS Bodies	(2,169)
(2,737)	Public Corporations & Trading Funds	(2,321)
(44,485)	Other	(45,463)
<b>(72,281)</b>		<b>(64,103)</b>

**21. PROVISIONS**

	Outstanding Legal Cases £000	Other Provisions £000	Total £000
<b>Balance at 1st April 2010</b>	<b>(611)</b>	<b>(9,792)</b>	<b>(10,403)</b>
Additional provisions made in 2010/11	(10)	(805)	(815)
Amounts used in 2010/11	-	603	603
Unused amounts reversed in 2010/11	-	584	584
<b>Balance at 31st March 2011</b>	<b>(621)</b>	<b>(9,410)</b>	<b>(10,031)</b>
Additional provisions made in 2011/12	-	(1,632)	(1,632)
Amounts used in 2011/12	-	3,403	3,403
Unused amounts reversed in 2011/12	-	584	584
Unwinding of Discounting 2011/12	-	(109)	(109)
<b>Balance at 31st March 2012</b>	<b>(621)</b>	<b>(7,164)</b>	<b>(7,785)</b>

**Outstanding Legal Cases**

**Pilots Pension Fund Deficit £621k**

The pilots have their own funded pension scheme that is in deficit. The pilots' pension scheme is claiming the deficit from the employers. The case has been heard in court and the judgement has been given against the employers. The employers are appealing on the basis that the trustees have acted ultra vires.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Other Provisions**

**Pyramids Guarantees £2,560k**

The Council is acting as guarantor for £3.055m of loan obligations to Southsea Community Leisure Limited. Southsea Community Leisure Limited will use the loan to renovate the Pyramids Leisure Centre. The fair value of this guarantee that has been provided for is £2.560m.

**Insurance provision £1,597k**

This covers excesses on external insurance policies for public liability, officials' indemnity, fire and personal accident, and various small claims. It is anticipated that the Council may have to fund certain outstanding claims that go-back to the 1980's. These potential claims are covered by this provision. The level of the provision is kept under review.

**Unsold landfill allowances £659k**

Landfill Allowances are given to waste disposal Authorities by Central Government. Those allowances that are not used may be sold to other waste disposal Authorities. There has not been a ready market for Landfill allowances to date, and therefore a provision has been created to cover the difference between their notional value and their expected sale value

**Liability for landfill usage £1,183k**

Under the Landfill Allowance Trading Scheme there is a six month reconciliation period. Therefore on 30th September each year the Council will pay for its landfill usage from the previous year, by transferring Landfill Allowances to Central Government.

Other provisions include potential refunds in respect of the Mental Health Act Section 117, bus operator concessionary fares, dilapidations on dwellings leased from the private sector and the Council's liability under the Carbon Reduction Commitment.

**22. UNUSABLE RESERVES**

1st April 2010 £000	31st March 2011 £000		31st March 2012 £000
(71,416)	(67,607)	Revaluation Reserve	(67,548)
(8,116)	(8,049)	Available for Sale Financial Instruments Reserve	(8,185)
(890,598)	(681,974)	Capital Adjustment Account	(588,973)
3,377	3,250	Financial Instruments Adjustment Account	2,985
338,248	257,817	Pensions Reserve	321,848
(1,864)	(722)	Collection Fund Adjustment Account	354
4,848	5,381	Accumulating Compensated Absences Adjustment Account	5,174
(17,456)	(16,903)	Deferred Capital Receipts	(18,644)
<b>(642,977)</b>	<b>(508,807)</b>	<b>Total Unusable Reserves</b>	<b>(352,988)</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Revaluation Reserve

The Revaluation Reserves contains the gains made by the Authority arising from increases in the value of its fixed assets. The balance is reduced when assets with accumulated gains are either:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of and the gains are realised.

The Reserve contains only gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2010/11 £000		2011/12	
		£000	£000
<b>(71,416)</b>	<b>Balance at 1st April</b>		<b>(67,607)</b>
2,248	Revaluations		<b>(1,275)</b>
741	Difference between fair value depreciation and historical cost depreciation	1,019	
39	Accumulated gains on assets sold or scrapped	315	
780	Amount written off to the Capital Adjustment Account		<b>1,334</b>
<b>(67,608)</b>	<b>Balance at 31st March</b>		<b>(67,548)</b>

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

2010/11 £000		2011/12 £000
<b>(8,116)</b>	<b>Balance at 1st April</b>	<b>(8,049)</b>
0	Upward revaluation of assets	0
67	Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	(136)
<b>(8,049)</b>	<b>Balance at 31st March</b>	<b>(8,185)</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation and impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date the Revaluation reserve was created to hold such gains.

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2010/11		Capital Adjustment Account	2011/12	
£000	£000		£000	£000
	<b>(890,598)</b>	<b>Balance at 1st April</b>		<b>(681,974)</b>
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
28,343		- Charges for depreciation and impairment of non-current assets	29,460	
216,262		- Revaluation losses on Property, Plant and Equipment	15,509	
335		- Amortisation of intangible assets	366	
1,160		- Revenue expenditure funded from capital under statute	89,032	
247		- (Gain) / loss on disposal taken to the Comprehensive Income and Expenditure Statement	5,206	
238		Loan Repayments	597	
	246,585			140,169
	802	Adjusting amounts written out of Revaluation Reserve		(1,019)
	<b>(643,211)</b>	Net written out amount of the cost of non-current assets consumed in the year		<b>(542,824)</b>
		Capital financing applied in the year:		
(3,499)		- Use of Capital Receipts Reserve to finance new capital expenditure	(4,478)	
-		- Use of Major Repairs Reserve to finance new capital expenditure	(17,734)	
(21,416)		- Application of grants and contributions to finance new capital expenditure	(13,227)	
(8,418)		- Statutory provision for the financing of capital investment charges against the General Fund and HRA balances	(9,125)	
(695)		- Repayment of transferred debt	(667)	
(4,267)		- Capital expenditure charged against the General Fund and HRA balances	(652)	
	(38,295)			(45,883)
	(468)	Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement		(266)
	<b>(681,974)</b>	<b>Balance at 31st March</b>		<b>(588,973)</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefits from gains per statutory provisions. The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out to the General Fund Balance to the in the Movement in Reserves Statement. Over time the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the term of the replacement loans. As a result, the balance on the Account at 31st March 2012 will be charged to the General Fund over the next 46 years.

2010/11 £000	Financial Instruments Adjustment Account	2011/12	
		£000	£000
<b>3,377</b>	<b>Balance at 1st April</b>		<b>3,250</b>
(47)	Proportion of premiums incurred in previous financial years to be charged to balances in accordance with statutory requirements	(65)	
(80)	Reverse effect of soft (below market interest rate loans) on the Comprehensive Income and Expenditure Statement	(199)	
(127)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements		(265)
<b>3,250</b>	<b>Balance at 31st March</b>		<b>2,985</b>

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the Authority makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

2010/11 £000	Pensions Reserve	2011/12 £000
338,248	<b>Balance at 1st April</b>	257,817
(6,830)	Actuarial (gains) and losses on pensions assets and liabilities	60,430
(53,850)	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	23,850
(19,751)	Employer's pensions contributions and direct payments to pensioners payable in the year	(20,249)
<b>257,817</b>		<b>321,848</b>

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from the council tax payers compared with statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2010/11 £000		2011/12 £000
(1,864)	<b>Balance at 1st April</b>	(722)
1,142	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,077
<b>(722)</b>		<b>355</b>

Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund and the Housing Revenue Account balance from accruing for compensated absences earned but not taken in the year, e.g. Annual leave entitlement carried forward at 31st March. Statutory arrangements require the impact on the General Fund Balance is neutralised by transfers to or from the Account.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

2010/11 £000		2011/12 £000	
		£000	£000
4,848	<b>Balance at 1st April</b>		5,381
(4,848)	Settlement or cancellation of the accrual made at the end of the preceding year	(5,381)	
5,381	Amounts accrued at the end of the current year	5,174	
533	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(207)
<b>5,381</b>	<b>Balance at 31st March</b>		<b>5,174</b>

Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

Part of the rental income from finance leases is used to write down the long term debtor. Legislation requires all the income relating to finance leases predating IFRS to be credited to revenue. Therefore when operating leases were reclassified as finance leases a deferred capital receipt was established at the same time as the long term debtor. The deferred capital receipt is released through the Movement in Reserves Statement as the long term debtor is written down.

2010/11 £000		2011/12 £000
(17,456)	<b>Balance at 1st April</b>	<b>(16,903)</b>
-	Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(2,561)
-	Transfer to Capital Receipts Reserve upon receipt of cash	234
553	Transfer to Comprehensive Income and Expenditure Statement to mitigate the effect of leases being reclassified as finance leases under IFRS	586
<b>(16,903)</b>		<b>(18,644)</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**23. CASH FLOW STATEMENT – OPERATING ACTIVITIES**

The cash flows for operating activities include the following items:

2010/11 £000		2011/12 £000
6,301	Interest received	4,844
(19,056)	Interest paid	(20,575)
135	Dividends received	0

**24. CASH FLOW STATEMENT – INVESTING ACTIVITIES**

2010/11 £000		2011/12 £000
(67,415)	Purchases of property, plant and equipment, investment property and intangible assets	(26,056)
(130,907)	Purchase of short-term and long-term investments	(226,510)
(2,019)	Other payments for investing activities	(2,427)
2,806	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6,135
0	Proceeds from short-term and long-term investments	0
21,365	Other receipts from investing activities	18,431
<b>(176,170)</b>	<b>Net cash flows from investing activities</b>	<b>(230,427)</b>

**25. CASH FLOW STATEMENT – FINANCING ACTIVITIES**

2010/11 £000		2011/12 £000
0	Cash receipts of short and long term borrowing	172,619
0	Other receipts from financing activities	0
(3,129)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,014)
(946)	Repayments of short and long term borrowing	15,539
1,101	Other payments for financing activities	3,506
<b>(2,974)</b>	<b>Net cash flows from financing activities</b>	<b>189,650</b>



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**26. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Accounting Code of Practice*. However, decisions about resource allocation are taken by the City Council on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisation are charged to services in the Comprehensive Income and Expenditure Statement)
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- Expenditure on support services is budgeted for as part of the Resources portfolio and not charged to other portfolios.

Nevertheless the City Council's budget takes full account of all the transactions that are chargeable to the Council's General Reserves and therefore budgets for an overall contribution to or from Reserves equivalent to that reported in the Movement in Reserves Statement.

The income and expenditure of the Authority's portfolios for the year is as follows:

<b>Portfolio Analysis</b>	<b>Gross Expenditure 2011/12 £000</b>	<b>Income 2011/12 £000</b>	<b>Net Expenditure 2011/12 £000</b>
Culture, Leisure & Sport	15,938	(2,192)	13,746
Education & Children's Services	177,746	(129,684)	48,062
Environment	17,886	(2,714)	15,172
Community Safety	5,718	(1,543)	4,175
Health & Social Care	66,822	(18,439)	48,383
Housing	11,741	(2,397)	9,344
Leader	491	(6)	485
Resources	150,966	(122,729)	28,237
Planning Regeneration Economic Development	28,312	(25,553)	2,759
Traffic & Transportation	25,578	(18,946)	6,632
Governance & Audit Committee	837	(515)	322
Licensing Committee	579	(715)	(136)
<b>Net Cost of Services</b>	<b>502,614</b>	<b>(325,433)</b>	<b>177,181</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

<b>Portfolio Analysis</b>	<b>Gross Expenditure 2010/11 £000</b>	<b>Income 2010/11 £000</b>	<b>Net Expenditure 2010/11 £000</b>
Culture, Leisure & Sport	16,884	(2,283)	14,601
Education & Children's Services	188,225	(146,861)	41,364
Environment & Community Safety	25,581	(3,866)	21,715
Health & Social Care	79,891	(23,442)	56,449
Housing	12,853	(2,127)	10,726
Leader	510	(6)	504
Resources	150,050	(119,291)	30,759
Planning Regeneration Economic Development	29,341	(25,840)	3,501
Traffic & Transportation	24,583	(21,187)	3,396
Governance & Audit Committee	935	(487)	448
Licensing Committee	588	(706)	(118)
<b>Net Cost of Services</b>	<b>529,441</b>	<b>(346,096)</b>	<b>183,345</b>

**Reconciliation of Portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement**

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Net Cost of Services	183,345	177,181
Add amounts not reported to management in Service Analysis	190,631	83,383
Add amounts not reported to management	(66,564)	15,018
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement Net Cost of Services	(4,318)	(2,302)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement under the Code</b>	<b>303,094</b>	<b>273,280</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

<b><u>Reconciliation to Subjective Analysis (Single Entity) 2011/12</u></b>	<b>Service Portfolio Analysis</b>	<b>Services not in Portfolio Analysis</b>	<b>Not reported to management in year</b>	<b>Not included in CIES</b>	<b>Net Cost of Services</b>	<b>Corporate Amounts</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	(73,063)	(68,689)	0	5,252	<b>(136,500)</b>	(5,358)	<b>(141,858)</b>
Surplus or deficit on associates and joint ventures	0	0	0	0	<b>0</b>	(140)	<b>(140)</b>
Interest and investment income	0	0	0	0	<b>0</b>	(3,778)	<b>(3,778)</b>
Income from Council Tax Government grants and contributions	0	0	0	0	<b>0</b>	(69,128)	<b>(69,128)</b>
(Gain)/Loss on disposal of Fixed Assets	(252,368)	0	0	11,514	<b>(240,854)</b>	(139,743)	<b>(380,597)</b>
Expected Return on Pension Assets	0	0	0	0	<b>0</b>	(3,277)	<b>(3,277)</b>
Changes in the fair value of Investment Properties	0	0	0	0	<b>0</b>	(27,240)	<b>(27,240)</b>
	0	0	0	0	<b>0</b>	(266)	<b>(266)</b>
<b>Total Income</b>	<b>(325,431)</b>	<b>(68,689)</b>	<b>0</b>	<b>16,766</b>	<b>(377,354)</b>	<b>(248,930)</b>	<b>(626,284)</b>
Employee expenses	211,854	7,408	15,018	(17,209)	<b>217,071</b>	34,790	<b>251,861</b>
Other service expenses	229,251	130,869	0	(1,792)	<b>358,328</b>	1,793	<b>360,121</b>
Support Service Recharges	29,960	0	0	0	<b>29,960</b>	0	<b>29,960</b>
Depreciation, amortisation and impairment	31,546	13,795	0	(67)	<b>45,274</b>	67	<b>45,341</b>
Interest Payments	0	0	0	0	<b>0</b>	21,360	<b>21,360</b>
Precepts and Levies	0	0	0	0	<b>0</b>	74	<b>74</b>
Payments to Housing Capital Receipts Pool	0	0	0	0	<b>0</b>	779	<b>779</b>
Changes in the fair value of Investment Properties	0	0	0	0	<b>0</b>	0	<b>0</b>
<b>Total Operating Expenses</b>	<b>502,611</b>	<b>152,072</b>	<b>15,018</b>	<b>(19,068)</b>	<b>650,633</b>	<b>58,863</b>	<b>709,496</b>
<b>Surplus or deficit on the provision of services</b>	<b>177,180</b>	<b>83,383</b>	<b>15,018</b>	<b>(2,302)</b>	<b>273,279</b>	<b>(190,067)</b>	<b>83,212</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

<b>Reconciliation to Subjective Analysis (Single Entity) 2010/11</b>	<b>Service Portfolio Analysis</b>	<b>Services not in Portfolio Analysis</b>	<b>Not reported to management in year</b>	<b>Not included in CIES</b>	<b>Net Cost of Services</b>	<b>Corporate Amounts</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	(76,058)	(65,020)	0	5,093	<b>(135,985)</b>	(5,253)	<b>(141,238)</b>
Surplus or deficit on associates and joint ventures	0	0	0	0	<b>0</b>	(135)	<b>(135)</b>
Interest and investment income	0	0	0	0	<b>0</b>	(4,863)	<b>(4,863)</b>
Income from Council Tax	0	0	0	0	<b>0</b>	(68,432)	<b>(68,432)</b>
Government grants and contributions	(270,040)	(162)	0	11,521	<b>(258,681)</b>	(138,032)	<b>(396,713)</b>
(Gain)/Loss on disposal of Non-current Assets	0	0	0	0	<b>0</b>	(1,147)	<b>(1,147)</b>
Expected Return on Pension Assets	0	0	0	0	<b>0</b>	(24,130)	<b>(24,130)</b>
Changes in the fair value of Investment Properties	0	0	0	0	<b>0</b>	(468)	<b>(468)</b>
<b>Total Income</b>	<b>(346,098)</b>	<b>(65,182)</b>	<b>0</b>	<b>16,614</b>	<b>(394,666)</b>	<b>(242,460)</b>	<b>(637,126)</b>
Employee expenses	216,463	5,784	(66,564)	(16,798)	<b>138,885</b>	35,110	<b>173,995</b>
Other service expenses	252,272	43,204	0	(2,148)	<b>293,328</b>	2,181	<b>295,509</b>
Support Service Recharges	22,519	0	0	0	<b>22,519</b>	0	<b>22,519</b>
Depreciation, amortisation and impairment	38,187	206,825	0	(1,986)	<b>243,026</b>	1,986	<b>245,012</b>
Interest Payments	0	0	0	0	<b>0</b>	19,123	<b>19,123</b>
Precepts and Levies	0	0	0	0	<b>0</b>	75	<b>75</b>
Payments to Housing Capital Receipts Pool	0	0	0	0	<b>0</b>	1,098	<b>1,098</b>
<b>Total Operating Expenses</b>	<b>529,441</b>	<b>255,813</b>	<b>(66,564)</b>	<b>(20,932)</b>	<b>697,758</b>	<b>59,573</b>	<b>757,331</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>183,343</b>	<b>190,631</b>	<b>(66,564)</b>	<b>(4,318)</b>	<b>303,092</b>	<b>(182,887)</b>	<b>120,205</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

These reconciliations show how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

**27. ACQUIRED AND DISCONTINUED OPERATIONS**

There were no acquired or discontinued operations in 2011/12. The Council decided to sell the Pyramids Leisure Centre by way of a leasehold disposal. This operation was discontinued with effect from April 2010. The Council is acting as guarantor to Southsea Community Leisure Limited for £3.1m of loan obligations. Southsea Community Leisure Limited will use the loan to renovate the Pyramids Leisure Centre. The fair value of the guarantee that has been provided for is £2.560m.

**28. TRADING OPERATIONS**

The following note identifies trading units where the service managers are required to operate in a commercial environment and balance their budgets by generating income from other parts of the Authority or third parties.

Included under this category are property based activities concerning the management of industrial and corporate estates, properties and local markets. The City Council's Port activities are classified as Highways and Transport expenditure and are not therefore included in these Trading Undertakings.

The City Council's Port trading positions was £3.14 million surplus in 2011/12. The City Council's operations were as follows:

2010/11			2011/12			
Gross Expenditure £000	Gross Income £000	(Surplus)/ Deficit £000	Trading Units	Gross Expenditure £000	Gross Income £000	(Surplus)/ Deficit £000
448	(183)	265	Operational property	397	(226)	171
544	(1,711)	(1,167)	Industrial property	179	(1,653)	(1,474)
168	(225)	(57)	Retail property	96	(231)	(135)
1,474	(2,795)	(1,321)	Other non-operational property	390	(2,887)	(2,497)
28	(32)	(4)	Agricultural property	19	(34)	(15)
299	(1)	298	Property review/redevelopment	386	0	386
374	6	380	Property disposals	380	0	380
800	(152)	648	Offices	11	(214)	(202)
<b>4,135</b>	<b>(5,093)</b>	<b>(958)</b>	<b>Net (surplus)/deficit on Trading and Other Operations</b>	<b>1,858</b>	<b>(5,245)</b>	<b>(3,386)</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**29. AGENCY SERVICES**

Portsmouth City Council has no significant agency arrangements and so no significant agency expenditure apart from its statutory responsibilities to collect Council Tax on behalf of Hampshire Police and Fire Authorities and National Non Domestic Rates on behalf of the Government.

**30. POOLED BUDGETS**

**(a) Adult Mental Health & Substance Misuse**

Since 1st May 2008 the City Council has been a partner in a pooled budget arrangement with Solent NHS Trust (host partner). The purpose of the partnership is to provide integrated mental health and substance misuse services. The Council and the Trust have an agreement in place until 31st March 2013.

	<b>2011/12 £000</b>
Gross Income	(13,981)
Expenditure	13,438
<b>Surplus</b>	<b>(543)</b>
Council's contribution	1,821

**(b) Integrated Commissioning Unit**

The Council (host partner) has entered into a pooled budget arrangement with Portsmouth City Teaching PCT for the commissioning of a range of health and social care services for vulnerable people. The Council and the Trust have an agreement in place for funding these services that will run for three years from 1<sup>st</sup> April 2010.

	<b>2011/12 £000</b>
Gross Income	(651)
Expenditure	622
<b>Surplus</b>	<b>(29)</b>
Council's contribution	244

**(c) Nursing Home Placements**

The Council (host partner) has entered into a pooled budget arrangement with Portsmouth City Teaching PCT for the purpose of commissioning nursing care. The Council and the Trust have an agreement in place for funding these services that will run for twenty five years from February 2011.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

	2011/12 £000
Gross Income	(1,123)
Expenditure	1,123
<b>Surplus</b>	<b>0</b>
Council's contribution	977

**31. MEMBERS ALLOWANCES**

The total amount of members' allowances paid in 2011/12 was £562,166 (£573,905 in 2010/11). Detailed information on members' allowances is available from the Head of Finance and Section 151 Officer, Civic Offices, Guildhall Square, Portsmouth, PO1 2AL.

**32. OFFICERS REMUNERATION**

Detailed below are the number of employees, in the accounting period whose gross pay fell in each bracket of a scale in multiples of £5,000 commencing at £50,000. This analysis includes Senior Officers.

2010/11 Number of employees		2011/12 Number of employees
88	£50,000 to £54,999	77
50	£55,000 to £59,999	58
40	£60,000 to £64,999	27
12	£65,000 to £69,999	15
19	£70,000 to £74,999	14
15	£75,000 to £79,999	17
4	£80,000 to £84,999	2
6	£85,000 to £89,999	7
0	£90,000 to £94,999	0
2	£95,000 to £99,999	2
2	£100,000 to £104,999	0
5	£105,000 to £109,999	5
1	£110,000 to £114,999	0
0	£115,000 to £119,999	0
0	£120,000 to £124,999	0
1	£125,000 to £129,999	0
0	£130,000 to £134,999	0
0	£135,000 to £139,999	0
0	£140,000 to £144,999	0
1	£145,000 to £149,999	1
<b>246</b>		<b>225</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Senior Officers Emoluments in 2011/12**

The following table sets out the remuneration disclosures for Senior Officers whose salary in 2011/12 is less than £150,000, but equal to or more than £50,000:

<b>Post Title</b>	<b>Salary &amp; Allowances</b>	<b>Compensation for loss of office</b>	<b>Total Remuneration Excluding Pension Contributions</b>	<b>Pension Contributions</b>	<b>Total Remuneration including Pension Contributions</b>
	£	£	£	£	£
Chief Executive	148,885	-	148,885	19,504	168,389
Director of Social Services & Strategic	109,430	-	109,430	14,335	123,765
Director Strategic Director & Section 151 Officer *	45,596	62,080	107,676	5,973	113,649
Section 151 Officer & Head of Financial Services	72,381	-	72,381	9,482	81,863
Director of Regeneration & Strategic	109,430	-	109,430	14,335	123,765
Director City Solicitor & Strategic	107,345	-	107,345	14,062	121,407
Director Port Manager	105,261	-	105,261	13,789	119,050
Director of Children's Services & Strategic	109,430	-	109,430	14,335	123,765
Director					

\* The Strategic Director & Section 151 Officer retired on 31st August 2011. Their annual salary was £109,430.



**PORTSMOUTH CITY COUNCIL**

**Annual Report 2011/12**

**Senior Officers Emoluments in 2010/11**

The following table sets out the remuneration disclosures for Senior Officers whose salary in 2010/11 is less than £150,000, but equal to or more than £50,000:

<b>Post Title</b>	<b>Salary &amp; Allowances</b>	<b>Total Remuneration Excluding Pension Contributions</b>	<b>Pension Contributions</b>	<b>Total Remuneration including Pension Contributions</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Chief Executive	148,885	148,885	28,437	177,322
Director of Social Services & Strategic Director	109,430	109,430	20,901	130,331
Section 151 Officer & Strategic Director	109,430	109,430	20,901	130,331
Director of Regeneration & Strategic Director	109,430	109,430	20,901	130,331
City Solicitor & Strategic Director	105,261	105,261	20,105	125,366
Port Manager	103,176	103,176	19,707	122,883
Director of Children's Services & Strategic Director	109,430	109,430	20,901	130,331

**33. EXTERNAL AUDIT COSTS**

This note discloses the fees paid to the Audit Commission for work carried out in 2011/12.

<b>2010/11 £000</b>		<b>2011/12 £000</b>
334	External Audit Services	304
71	Certification of grant claims & returns	55
0	Statutory inspection	0
4	Other	8
<b>409</b>	<b>Total</b>	<b>367</b>

No other non-statutory services were provided.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**34. DEDICATED SCHOOLS GRANT**

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an Authority-wide basis provided by the local Authority. It also provides for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2011/12 are as follows:

	2011/12		
	£000	£000	£000
	Central Exp	Schools Budget	Total
Final DSG for 2011/12			122,120
Brought forward from 2010/11			1,126
Carry forward to 2012/13 agreed in advance			0
Agreed budgeted distribution in 2011/12	9,505	113,741	123,246
Actual central expenditure	7,866		
Actual ISB deployed to schools		113,205	
Local Authority contribution for 2011/12	0	0	0
Carry forward to 2012/13 agreed in advance	1,639	536	2,175

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**35. GRANT INCOME**

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

	<b>2010/11 £000</b>	<b>2011/12 £000</b>
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	(11,097)	(21,547)
Area Based Grant	(16,931)	0
Early Intervention Grant	(739)	(9,542)
Children and Young Peoples' Grant	(324)	0
PFI Grant	(11,521)	(11,520)
Council Tax Freeze Grant	0	(1,721)
New Homes Bonus Grant	0	(334)
Local Services Support Grant	0	(989)
Learning Disabilities Grant	0	(6,279)
Housing Benefit and Council Tax Benefit Admin Grant	0	(2,249)
Income from Council Tax	(68,432)	(69,128)
Contribution from NNDR Pool	(76,422)	(69,707)
Capital Grants and Contributions	(20,998)	(15,855)
	<b>(206,464)</b>	<b>(208,872)</b>
<b>Credited to Services</b>		
Council Tax Benefit Subsidy	(14,542)	(14,765)
Rent Allowance Subsidy	(61,208)	(63,591)
HRA Rent Rebates Subsidy	(36,480)	(38,826)
Non HRA Rent Rebates Subsidy	(466)	(1,056)
Sure Start Grants	(7,081)	(74)
Dedicated Schools Grant	(103,572)	(121,071)
School Standards Grant & Schools Standard Fund	(17,285)	(1,559)
Other grants	(16,142)	(7,103)
	<b>(256,776)</b>	<b>(248,045)</b>

In 2011/12, the Government changed its approach to grant funding and subsumed a number of grants into Revenue Support Grant, Dedicated Schools Grant and Early Intervention Grant.

The council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year-end are as follows:

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

	<b>2010/11 £000</b>	<b>2011/12 £000</b>
<b>Capital Grants Receipts in Advance</b>		
Department for Transport Section 31 Grants	0	(378)
PUSH Funding	(2,238)	(1,925)
Regional Housing Pot Capital Grant	(1,366)	(527)
Other grants	(1,796)	(714)
Section 106 Receipts	(1,199)	(956)
Other contributions	(224)	(153)
<b>Total</b>	<b>(6,823)</b>	<b>(4,653)</b>

**36. RELATED PARTIES**

The City Council is required to disclose material transactions with related parties, being defined as bodies or individuals that have the potential to control or influence the City Council, or to be influenced or controlled by the City Council. Disclosure of these transactions allows readers to assess the extent to which the City Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability

Portsmouth City Council trades extensively with its subsidiary MMD. The City Council has sold £2,534k (2011 - £2,177k) of goods and services to MMD during the year and in addition has advanced a loan, to facilitate the payment of general insurance premiums, leaving £86k outstanding at the year end. Portsmouth City Council has paid revenue grants totalling £1.2 million (2011 - £2.6 million), in support of its subsidiary. Two loans from the City Council totalling £2,295k have been advanced to the subsidiary MMD. The loans carry interest at 4.81% per annum. They are repaid in monthly instalments including interest terminating on 31<sup>st</sup> March 2029 and 2030. Portsmouth City Council has involvements with other related companies as described in Note 45 below.

Central Government has effective control over the general operations of the City Council. It is responsible for providing the statutory framework, within which the City Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the City Council concludes with other parties.

Members of the City Council have direct control over the Council's financial and operating policies. The City Council's constitution requires members to declare their interests in related parties in a Register of Interests.

Officers are bound by the City Council's Code of Business Conduct which seeks to prevent related parties exerting undue influence over the City Council. Directors are required to declare any transactions with the City Council. No transactions have been disclosed.

Precepting Bodies, where the City Council pays a precept to a related party are disclosed below.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

2010/11 £000		2011/12 £000
8,681	Hampshire Police Authority	8,762
3,644	Hampshire Fire & Rescue Authority	3,678
75	Langstone Harbour Board	71
<b>12,400</b>		<b>12,511</b>

Portsmouth City Council is a participant on behalf of its staff in the Hampshire Pension Fund, and currently Councillor Donna Jones is the representative on the pension fund for the unitary authorities in the Hampshire area. Portsmouth City Council has paid £23 million approximately to the Hampshire Pension Fund on behalf of the employees.

The City Council has provided significant contributions, and some in excess of £250k to the following bodies. In all cases members of the City Council are also appointed to the bodies concerned, as a trustee or director. The percentage of each body's income that the City Council's contribution represents is estimated from previously published accounts. Details are given below.

Langstone Harbour Board is not treated as a group member, in spite of its Precepting on the City Council, as it is a statutory body that can only be abolished by central Government.

Related Party	Contribution £000	Percentage of income
New Theatre Royal	81	7%
The Kings Theatre	155	15%
Age Concern Portsmouth	289	43%
Highbury College	492	N/K
Motiv8	241	19%
Community First for Portsmouth	332	39%
First Wessex (Portsmouth Foyer) Ltd	479	N/K
Tourism South East	41	N/K

Council Members have made declarations during the year as shown below, relative to the parties shown above. The grants were made with proper consideration of declarations of interest.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Councillor		Declaration
Margaret	Adair	Age Concern Portsmouth, The King's Theatre
Michael	Blake	Langstone Harbour Board
Cheryl	Buggy	New Theatre Royal
Margaret	Foster	Age Concern Portsmouth, Beneficial Foundation
David	Fuller	Hampshire Combined Fire & Rescue.
Terry	Hall	Portsmouth Naval Base Property Trust
Michael	Hancock	Member of Parliament
David	Horne	Beneficial Foundation
Lee	Hunt	Southsea Skatepark Co Ltd, Tourism South East
Frank	Jonas	Hampshire Fire & Rescue
Hugh	Mason	Portchester Crematorium, Tourism South East
Lee	Mason	Langstone Harbour Board
Mike	Park	Age Concern, Langstone Harbour Board
Caroline	Scott	Langstone Harbour Board.
Dr Eleanor	Scott	Portchester Crematorium
Lynne	Stagg	Portchester Crematorium
Luke	Stubbs	Beneficial Foundation, Langstone Harbour Board
Alistair	Thompson	University of Portsmouth Nominations Committee.
Gerald	Vernon-Jackson	Portsmouth & SE Hampshire Partnership; New Theatre Royal
Stephen	Wemyss	First Wessex Portsmouth Foyer; Portsmouth & South East Hampshire Partnership;
Steven	Wylie	First Wessex Portsmouth Foyer.

Councillor Cheryl Buggy, ex- Lord Mayor, is a remunerated director of Express FM (Portsmouth) Ltd a company with which the City Council spent £62k in 2011. The Council did not spend any money with Express FM in 2012. Councillor Buggy is also a director of and shareholder in Express FM Limited.

Portchester Crematorium is an associated entity where the City Council appoints two members as its entitlement due to its 25% control of the joint committee. No financial support is necessary from the City Council, and in contrast, the crematorium pays a dividend each year to its four investors, PCC, Fareham, Havant and Gosport.

**PORTSMOUTH CITY COUNCIL**  
Annual Report 2011/12

**37. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

2010/11 £000		2011/12 £000
309,881	<b>Opening capital financing requirement</b>	336,537
	<b>Capital Investment</b>	
61,907	Operational assets (tangible & intangible)	44,010
1,159	Revenue expenditure funded from capital under statute	89,032
1,688	Loans advanced	3,025
64,754		136,067
	<b>Sources of finance</b>	
(3,499)	Capital receipts	(4,478)
(21,416)	Grants & contributions	(13,227)
(12,488)	Revenue provision	(27,511)
(695)	Repayment of transferred debt	(667)
(38,098)		(45,883)
<b>336,537</b>	<b>Closing capital financing requirement</b>	<b>426,721</b>
	The capital financing requirement is met by the following items in the balance sheet:	
1,078,647	Fixed assets including equity investments	1,074,363
6,498	Housing General Fund mortgages	6,592
-	Advances to subsidiaries	2,381
9,023	Assets Held for Sale	8,091
(8,049)	Available for Sale Reserve	(8,185)
(67,608)	Revaluation Reserve	(67,548)
(681,974)	Capital Adjustment Account	(588,973)
<b>336,537</b>		<b>426,721</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**38. LEASES**

Authority as Lessee

*Finance Leases*

The Council has acquired a number of buildings and port equipment under finance leases.

The assets held under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31st March 2011 £000	31st March 2012 £000
Other Land & Buildings	223	512
Vehicles, Plant & Equipment	3,555	3,313
	<b>3,778</b>	<b>3,825</b>

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The net present value of the minimum lease payments is made up of the following amounts:

	31st March 2011 £000	31st March 2012 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	1,063	1,075
Non-current	7,825	8,934
	<b>8,888</b>	<b>10,009</b>

The minimum lease payments in cash terms will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31st March 2011 £000	31st March 2012 £000	31st March 2011 £000	31st March 2012 £000
Not later than one year	1,087	1,086	799	835
Later than one year and not more than five years	3,851	3,543	3,031	2,842
Later than five years	8,878	8,126	2,279	1,658
	<b>13,816</b>	<b>12,755</b>	<b>6,109</b>	<b>5,335</b>



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 and 2010/11 no contingent rents were payable by the Authority.

The Authority has sub-let some of the industrial accommodation held under these finance leases. At 31st March 2012 the minimum payments expected to be received under non-cancellable sub-leases was £346k (£354k at 31st March 2011).

*Operating Leases*

The Authority has acquired a number of assets, mainly photocopiers, vehicles and port equipment by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	<b>31st March 2011</b> <b>£000</b>	<b>31st March 2012</b> <b>£000</b>
Not more than one year	785	717
Later than one year and not later than five years	1,891	1,557
Later than five years	317	16,615
	<b>2,993</b>	<b>18,889</b>

Authority as Lessor

*Finance Leases*

The Authority has leased out property at 407 Middle Park Way, Crookhorn Golf Course, Lynx House, the Wightlink Terminal and the Portsmouth Handling Services building. The Council has also leased out a fleet of refuse collection vehicles.

The Authority has a gross investment in leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	<b>31st March 2011</b> <b>£000</b>	<b>31st March 2012</b> <b>£000</b>
Finance lease debtor (net present value of minimum lease payments):		
current	751	697
non-current	5,727	5,029
Unguaranteed residual value of property	376	376
Gross investment in lease	<b>6,854</b>	<b>6,102</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31st March 2011 £000	31st March 2012 £000	31st March 2011 £000	31st March 2012 £000
Not later than one year	751	697	751	697
Later than one year and not later than five years	2,311	2,223	2,311	1,949
Later than five years	3,792	3,183	3,416	3,080
	<b>6,854</b>	<b>6,103</b>	<b>6,478</b>	<b>5,726</b>

The Council's tenants such as HMRC and Wightlink are thought to be in a strong financial position. Therefore worsening financial circumstances are not expected to result in lease payments not being made. The Authority has not set aside an allowance for uncollectible amounts.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. No contingent rents were receivable by the Authority in 2010/11 or 2011/12.

*Operating Leases*

The Authority leases out property and equipment under operating leases for the following purposes:

- for the provision of leisure facilities
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for income generation and capital appreciation
- to provide modern cranes for its subsidiary company

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31st March 2011 £000	31st March 2012 £000
Not later than one year	4,277	4,836
Later than one year and not later than five years	17,030	18,730
Later than five years	4,237	6,388
	<b>25,544</b>	<b>29,954</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 and 2010/11 no contingent rents were receivable by the Authority.

**39. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS**

The Council has four PFI contracts or similar arrangements. These cover the provision of the following:

- The provision of the building and its associated servicing for Milton Cross School by Granag for 30 years which became operational in 2003/04.
- The provision of three buildings used in the provision of services to people with learning disabilities by Victory Support for 30 years which became operational in 2003/04.
- The maintenance of the highway network by Ensign Highways for 25 years which became operational in 2004/05.
- The provision of waste disposal facilities by Veolia for 30 years which became operational in 1996/97.

The charge for the Milton Cross PFI scheme does not include a demand element and has little variability.

The charge for the learning disabilities PFI scheme does not include a demand element.

The charge for the highways PFI scheme does include a demand element up to a cap. The cap in the demand element has been reached and therefore further increases in the demand element are not possible. The contract includes provisions for deductions to unitary charge payments in the event of non-performance although few deductions have occurred. The cost of the highways PFI scheme increases if new roads are adopted. However agreement has been reached that this additional cost will be met through commuted sums from either developers or the Council.

The waste disposal contract is managed by Hampshire County Council. Through a side agreement, Southampton and Portsmouth City Council commit to paying a proportion of the costs of the scheme based on the proportion of waste contributed by each council. Portsmouth City Council's contribution towards the scheme costs is 11.52%. The charge for the waste disposal contract includes a fixed element for the provision of energy recovery facilities (ERFs), material recovery facilities, transfer stations, delivery points and composting sites which are designed to cover the capital costs that the operator has incurred in constructing infrastructure and their lifecycle replacement and fixed operating costs. There is also a demand element to the charge made by the operator which is dependent on the volumes of waste disposed of. The operator will make a reduction of 50% of the net proceeds generated from the sale of recyclable materials, i.e. the sales proceeds generated from selling the recyclable materials, less costs reasonably incurred by the operator in selling the materials. The income from the sale of recyclables is split between the 11 waste collection Authorities located within the County of Hampshire including Portsmouth City Council. The operator takes the full risks and rewards for the sale of electricity generated by the ERFs. The ERFs have spare capacity. Circa 15% of the plants processing potential, which the operator is allowed to exploit by selling waste processing services to third parties. The profit on selling off this capacity is shared equally with the Councils.

As the Council is deemed to control the services that are provided under its PFI schemes and similar arrangements and as ownership of the fixed assets will pass to

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet together with the associated deferred liability. The associated PFI Grant is shown as General Government Grant.

The movement in the carrying amount of PFI assets was as follows:

	<b>Miltoncross Secondary School £000</b>	<b>Learning Disability Facilities £000</b>	<b>Highways Maintenance £000</b>	<b>Waste Disposal £000</b>	<b>Total £000</b>
<b>Cost or Valuation</b>					
At 1st April 2010	22,950	7,364	80,762	14,107	125,183
Additions	4		35		39
Revaluations	(290)	(90)	(79)		(459)
Reclassifications					0
At 1st April 2011	22,664	7,274	80,718	14,107	124,763
Additions					0
Revaluations					0
Reclassifications	14		8,745		8,759
<b>At 31st March 2012</b>	<b>22,678</b>	<b>7,274</b>	<b>89,463</b>	<b>14,107</b>	<b>133,522</b>
<b>Depreciation</b>					
At 1st April 2010	0	0	(9,180)	(884)	(10,064)
Charge in Year	(290)	(90)	(2,038)	(890)	(3,308)
Revaluations	290	90	79		459
Reclassifications					0
At 1st April 2011	0	0	(11,139)	(1,774)	(12,913)
Charge in Year	(340)	(113)	(2,123)	(890)	(3,466)
Revaluations					0
Reclassifications					0
<b>At 31st March 2012</b>	<b>(340)</b>	<b>(113)</b>	<b>(13,262)</b>	<b>(2,664)</b>	<b>(16,379)</b>
<b>Impairment</b>					
At 1st April 2010	(1,421)	(720)	(3,996)	(92)	(6,229)
Charge in Year	(54)	(23)	(11)	0	(88)
Reclassifications					0
At 1st April 2011	(1,475)	(743)	(4,007)	(92)	(6,317)
Charge in Year	(14)				(14)
Reclassifications					0
<b>At 31st March 2012</b>	<b>(1,489)</b>	<b>(743)</b>	<b>(4,007)</b>	<b>(92)</b>	<b>(6,331)</b>
<b>Net Book Value</b>					
At 1st April 2010	21,529	6,644	67,586	13,131	108,890
At 31st March 2011	21,189	6,531	65,572	12,241	105,533
At 31st March 2012	20,849	6,418	72,194	11,351	110,812

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The movement in the liability resulting from the PFI schemes was as follows:

	<b>Liability as at 1st April 2010 £000</b>	<b>Payments £000</b>	<b>Liability as at 31st March 2011 £000</b>	<b>Payments £000</b>	<b>Liability as at 31st March 2012 £000</b>
Milton Cross School	(12,298)	136	(12,162)	150	(12,012)
Learning Disability Facilities	(4,335)	50	(4,285)	55	(4,230)
Highways Maintenance	(61,340)	1,598	(59,742)	1,866	(57,876)
Waste Disposal	(12,403)	499	(11,904)	539	(11,365)
	<b>(90,376)</b>	<b>2,283</b>	<b>(88,093)</b>	<b>2,610</b>	<b>(85,483)</b>

The liability is deemed to be written down from the charge payable to the operator after operation and maintenance, life-cycle replacement and interest costs have been deducted.

The Council is committed to pay the following to the PFI operators on a cash basis.

	<b>Repayments of Liability £000</b>	<b>Interest £000</b>	<b>Service Charges £000</b>	<b>Total Revenue Commitment £000</b>	<b>Life Cycle Replacement Costs £000</b>	<b>Total Commitment £000</b>
Within 1 year	1,262	9,056	16,897	27,215	2,953	30,168
Within 2 to 5 years	4,581	35,596	71,696	111,874	14,515	126,388
Within 6 to 10 years	21,600	38,660	99,786	160,046	11,866	171,912
Within 11 to 15 years	22,342	26,138	101,202	149,682	24,141	173,823
Within 16 to 20 years	33,510	8,269	51,132	92,910	6,208	99,118
Within 21 to 25 years	2,186	151	-	2,338	-	2,338
	<b>85,482</b>	<b>117,869</b>	<b>340,713</b>	<b>544,064</b>	<b>59,683</b>	<b>603,747</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**40. IMPAIRMENT LOSSES**

The City Council has leased the Guildhall to the Portsmouth Cultural Trust. The carrying value is based on income received from Portsmouth Cultural Trust which is less than the carrying value of the Guildhall. This has given rise to an impairment of £5,070k.

**41. TERMINATION BENEFITS**

The council terminated the contracts of a number of employees in 2011/12, incurring liabilities of £4,347,586 (£904,044 in 2010/11).

**42. LIABILITY RELATING TO DEFINED BENEFIT PENSION SCHEME**

**Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers and other employees, the council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the council has an obligation to account for the benefits earned at the time that employees earn that future entitlement rather than when amounts are paid over. The council participates in two post employment schemes:

The Local Government Pension Scheme (LGPS) administered by Hampshire County Council - this is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The Teachers' Pension Fund for teaching staff - this is an unfunded defined benefit scheme, administered by the Department for Education. Details of this fund are disclosed in Note 43.

**Transactions Relating to Post-employment Benefits**

The Council recognises the cost of retirement benefits in the cost of services when they are earned by employees, rather than when the benefits are eventually paid out as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

	2010/11 £000	2011/12 £000
<b>Comprehensive Income and Expenditure Statement:</b>		
<b>Cost of services</b>		
Current service cost	17,320	14,890
Past service cost	(82,150)	1,410
Settlements and Curtailments	-	-
<b>Financing and Investment Income and Expenditure</b>		
Interest cost	35,110	34,790
Expected return on assets	(24,130)	(27,240)
<b>Total Post Employment Benefit charged to the Surplus of deficit on the Provision of services</b>	<b>(53,850)</b>	<b>23,850</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Actuarial (gains) and losses	(6,830)	60,430
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(60,680)</b>	<b>84,280</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the surplus or deficit for the Provision of Services for post employment benefits in accordance with the Code	53,850	(23,850)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
Employers' contributions payable to scheme	18,259	18,660
Retirement benefits payable to pensioners	1,492	1,589
	<b>19,751</b>	<b>20,249</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31st March 2011/12 is a loss of £164.8 million.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**  
**Assets and Liabilities in relation to retirement benefits**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded Liabilities Local Government Pension Scheme		Unfunded Liabilities Local Government Pension Scheme		Unfunded Liabilities Teachers' Additional Benefits	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
Opening balance at 1st April	(625,150)	(677,100)	(11,733)	(13,506)	(8,041)	(9,290)
Current service cost	(14,890)	(17,320)	-	-	-	-
Interest cost	(33,740)	(33,980)	(620)	(670)	(430)	(460)
Contributions by scheme participants	(5,750)	(6,130)	-	-	-	-
Actuarial gains and losses	(50,240)	10,580	(910)	400	(500)	320
Benefits paid	22,650	18,590	930	873	659	610
Past service costs	(1,410)	80,210	-	1,170	-	770
Curtailments	-	-	-	-	-	-
Settlements	-	-	-	-	-	-
Closing balance at 31st March	<b>(708,530)</b>	<b>(625,150)</b>	<b>(12,333)</b>	<b>(11,733)</b>	<b>(8,312)</b>	<b>(8,040)</b>

Reconciliation of fair value of the scheme (plan) assets:

Local Government Pension Scheme	2011/12 £000	2010/11 £000
Opening balance at 1st April	387,108	361,649
Expected rate of return	27,240	24,130
Actuarial gains and losses	(8,780)	(4,470)
Employers contributions	18,660	18,259
Contributions by scheme participants	5,750	6,130
Benefits paid	(22,650)	(18,590)
Settlements	-	-
<b>Closing balance at 31st March</b>	<b>407,328</b>	<b>387,108</b>

The expected return on scheme assets are determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £18.46 million (2010/11: £19.66 million).



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

\* In the UK budget statement on 22nd June 2010, the Chancellor announced that with effect from 1st April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This had the effect of reducing Portsmouth City Council's liabilities in the Local Government Pension Scheme by £82.15 million and was recognised in 2010/11 as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change was considered to be a change in benefit entitlement. There was no impact upon the General Fund.

**Scheme history**

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Present value of funded liabilities (LGPS):	(454,750)	(480,561)	(677,100)	(625,150)	(708,530)
Present value of unfunded liabilities (LGPS and Teachers):	(19,917)	(20,283)	(22,796)	(19,774)	(20,645)
Fair value of assets:	333,670	268,703	361,649	387,108	407,328
<b>Surplus/(deficit) in the scheme:</b>	<b>(140,997)</b>	<b>(232,141)</b>	<b>(338,247)</b>	<b>(257,816)</b>	<b>(321,847)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £321.85 million 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 council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31st March 2013 is £17.69 million.

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The council's fund liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries and are based on the latest valuation of the scheme as at 31st March 2010.

**PORTSMOUTH CITY COUNCIL  
Annual Report 2011/12**

The principal assumptions used by the actuary have been:

	<b>Funded LGPS 2011/12</b>	<b>Funded LGPS 2010/11</b>	<b>Unfunded LGPS 2011/12</b>	<b>Unfunded LGPS 2010/11</b>	<b>Unfunded Teachers 2011/12</b>	<b>Unfunded Teachers 2010/11</b>
Equity investments	8.1%	8.4%	-	-	-	-
Bonds	3.1%	0.0%	-	-	-	-
Other	5.6%	0.0%	-	-	-	-
Mortality assumptions: Longevity at 65 for current pensioners:						
Men	23.9	23.8	23.9	23.8	23.9	23.8
Women	24.9	24.8	24.9	24.8	24.9	24.8
Longevity at 65 for future pensioners:						
Men	25.6	25.6	-	-	-	-
Women	26.8	26.7	-	-	-	-
Rate of inflation	2.5%	2.8%	2.4%	2.7%	2.4%	2.7%
Rate of increase in salaries	5.0%	5.2%	0.0%	0.0%	0.0%	0.0%
Rate of increase in pensions	2.5%	2.8%	2.4%	2.7%	2.4%	2.7%
Rate for discounting scheme liabilities	4.7%	5.4%	4.6%	5.5%	4.6%	5.5%

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Commutation

<b>31st March 2011</b>	<b>31st March 2012</b>
Each member assumed to exchange 25% of the maximum amount permitted of their past service pension rights on retirement, for additional lump sum.	Each member assumed to exchange 25% of the maximum amount permitted of their pre 1st April 2010 pension rights on retirement, for additional lump sum.
Each member assumed to exchange 75% of the maximum amount permitted of their future service pension rights on retirement, for additional sum.	Each member assumed to exchange 75% of the maximum amount permitted of their post 31st March 2010 pension rights on retirement, for additional lump sum.

The Local Government Pension Scheme's assets consist of the following categories, by proportion of total assets held:

	<b>2010/11</b>	<b>2011/12</b>
	%	%
Equity Investments	63.4	55.1
Bonds	25.0	28.5
Other assets	11.6	16.4
	<b>100.0</b>	<b>100.0</b>

**History of Experience Gains and Losses**

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2012:

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	%	%	%	%	%
Differences between the expected and actual return on assets	-8.7	-33.8	20.5	-1.2	-2.2
Experience gains and losses on liabilities	2.0	-0.4	0.8	0.5	-0.7

Further information can be found in the Hampshire County Council's Pension Fund's annual report, available from The County Treasurer, Hampshire County Council, The Castle, Winchester, SO23 8UB.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**43. PENSION SCHEMES ACCOUNTED AS DEFINED CONTRIBUTION SCHEMES**

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the cost by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local Authorities. The council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2011/12, the Council paid £6.94 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £6.97 million and 14.1%. There were contributions of £0.57 million outstanding at 31st March 2012.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 42.

**44. DISCLOSURE OF THE IMPACT OF AN ERROR**

The City Council discovered an error in the way that long term debtors and capital receipts were restated when International Financial Reporting Standards were adopted in 2010/11. A number of leases where the City Council is the lessor were reclassified from operating to finance leases. Principal repayments received up to 31st March 2010 were not taken into account in calculating the outstanding long term debtor or the balance of on the deferred capital receipt. This meant that the balances on both long term debtors and deferred capital receipts were overstated by £4,311k.

In order to correct this error, the Council has restated the prior year balances in the balance sheet. The following table demonstrates the effects on the following line items in the balance sheet.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Effect on line items in the Balance Sheet at 31st March 2010**

	2009/10 as Originally Stated £000	2009/10 as Restated £000	Restatement Due to Error £000	Restatement Due to Change in Accounting Policy on Heritage Assets £000
Long Term Debtors	26,371	22,060	(4,311)	-
<b>Long Term Assets</b>	<b>1,271,325</b>	<b>1,308,509</b>	(4,311)	41,495
<b>Net Assets</b>	<b>712,879</b>	<b>750,063</b>	(4,311)	41,495
Unusable Reserves	(605,793)	(642,977)	4,311	(41,495)
<b>Total Reserves</b>	<b>(712,879)</b>	<b>(750,063)</b>	4,311	(41,495)

**Effect on line items in the Balance Sheet at 31st March 2011**

	2010/11 as Originally Stated £000	2010/11 as Restated £000	Restatement Due to Error £000	Restatement Due to Change in Accounting Policy on Heritage Assets £000
Long Term Debtors	27,519	23,208	(4,311)	-
<b>Long Term Assets</b>	<b>1,080,792</b>	<b>1,117,986</b>	(4,311)	41,505
<b>Net Assets</b>	<b>596,397</b>	<b>633,591</b>	(4,311)	41,505
Unusable Reserves	(471,615)	(508,809)	4,311	(41,505)
<b>Total Reserves</b>	<b>(596,397)</b>	<b>(633,591)</b>	4,311	(41,505)

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**45. OTHER COMPANIES**

Portsmouth Harbour Renaissance Limited

The City Council has an equity interest in Portsmouth Harbour Renaissance Limited although this company is not a related company under the Local Authorities (Companies) order as the City Council does not have a controlling or dominant influence over it. In group accounts the investment in PHRL should be treated as an associate, but the figures would be immaterial to the overall understanding of the group.

**MMD (Shipping Services) Limited**

The Council acquired all of the company's shares and gained control of all of the voting rights on 29 February 2008, for cash. The acquisition of MMD is shown under long term investments in the Council's balance sheet. The Council operates the business, as a local Authority owned company. This limits the liability of the Council.

The company's principal activity is stevedoring. It is engaged in the provision of shipping, warehousing and associated services and UK road transport and distribution of fruit. MMD leases 19 acres of land from the Council. MMD pays guaranteed minimum tonnage dues and its fees form a large part of pilotage income to the City Council via the Commercial Ferry Port. MMD also pays the Council an annuity that continued until 2011 at £226k a year. The total annual income that the City Council derives from MMD is approximately £2.534m.

The purchase of the MMD business has a strategic value to the port as it allows greater flexibility of working and offers a range of facilities for more trades that are not otherwise available. This will be important as the fruit importing business changes over the next 15-20 years. It also opens up opportunities for short-sea shipping and cruise vessels. These opportunities are unlikely to happen if the leases are assigned to others. In the case of the MMD business not being viable or replaceable, the land may be required to support the ferry port trade and replace the lorry-park lost at Walton Road in 2005.

The company's results are dealt with in the Group Accounts as MMD is a wholly-owned subsidiary of the Council.

A copy of the company's accounts can be obtained from the company's offices at Flathouse Quay, Portsmouth, Hampshire, PO2 7SP.

**46. LONG TERM DEBTORS**

2009/10 £000	2010/11 £000		2011/12 £000
16,835	16,282	Finance Lease Debtors	17,321
45	35	Mortgages - HRA	26
5,030	6,497	Mortgages - Housing General Fund	6,592
150	-	Mary Rose Trust Loan	-
-	394	Capital Advances to MMD (Shipping Services) Ltd	2,381
<b>22,060</b>	<b>23,208</b>		<b>26,320</b>

**PORTSMOUTH CITY COUNCIL**

**Annual Report 2011/12**

**47. OTHER LONG TERM LIABILITIES**

These liabilities relate mainly to assets transferred from Hampshire County Council at 1st April 1997 which are still subject to loan finance, assets relating to the commercial port (which were acquired through finance leases) and service concession arrangements including private finance initiative (PFI) schemes.

<b>2009/10 £000</b>	<b>2010/11 £000</b>		<b>2011/12 £000</b>
(16,229)	(15,549)	Assets transferred from Hampshire County Council	(15,079)
(5,608)	(4,809)	Finance Leases	(4,527)
(88,055)	(85,445)	Service Concessions (including PFI's)	(84,221)
(2,466)	(2,706)	Other	(2,956)
<b>(112,358)</b>	<b>(108,509)</b>		<b>(106,783)</b>

**48. HERITAGE ASSETS: FIVE – YEAR SUMMARY OF TRANSACTIONS**

	<b>Heritage Assets 2007-08 £000</b>	<b>Heritage Assets 2008-09 £000</b>	<b>Heritage Assets 2009-10 £000</b>	<b>Heritage Assets 2010-11 £000</b>	<b>Heritage Assets 2011-12 £000</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

<b>Cost or Valuation</b>					
Museum Collections	12,303	12,303	12,303	12,303	12,303
Civic Plate	3,658	3,658	3,658	3,658	3,658
Memorials	179	179	179	179	179
Historic Buildings	30,203	30,391	29,857	29,962	29,950
Sculptures	154	154	1,540	1,540	1,540
	46,497	46,685	47,537	47,642	47,630
<b>Additions / Donations</b>	0	0	0	0	0
<b>Disposals</b>	0	0	0	0	0
<b>Revaluations:</b>					
Historic Buildings	188	(534)	(27)	(12)	365
Sculptures		1,386			
<b>Reclassifications:</b>					
Memorials					226
Historic Buildings			132		52
<b>At 31st March</b>	<b>46,685</b>	<b>47,537</b>	<b>47,642</b>	<b>47,630</b>	<b>48,273</b>
<b>Depreciation at 1st April</b>					
Historic Buildings	(513)	(532)	(13)	(3)	(6)
<b>Charge in Year:</b>					
Historic Buildings	(19)	(19)	(13)	(15)	(10)
<b>Revaluations:</b>					
Historic Buildings		538	23	12	0
<b>At 31st March</b>	<b>(532)</b>	<b>(13)</b>	<b>(3)</b>	<b>(6)</b>	<b>(16)</b>
<b>Impairment at 1st April</b>					
Historic Buildings			(148)	(292)	(323)
<b>Charge in Year:</b>					
Historic Buildings		(148)	(144)	(31)	11
<b>At 31st March</b>	<b>0</b>	<b>(148)</b>	<b>(292)</b>	<b>(323)</b>	<b>(312)</b>
<b>Net Book Value</b>					
Museum Collections	12,303	12,303	12,303	12,303	12,303
Civic Plate	3,658	3,658	3,658	3,658	3,658
Memorials	179	179	179	179	179
Historic Buildings	29,690	29,859	29,696	29,667	29,621
Sculptures	154	154	1,540	1,540	1,540
<b>At 1st April</b>	<b>45,984</b>	<b>46,153</b>	<b>47,376</b>	<b>47,347</b>	<b>47,301</b>
<b>Net Book Value</b>					
Museum Collections	12,303	12,303	12,303	12,303	12,303
Civic Plate	3,658	3,658	3,658	3,658	3,658
Memorials	179	179	179	179	406
Historic Buildings	29,859	29,696	29,667	29,621	30,038
Sculptures	154	1,540	1,540	1,540	1,540
<b>At 31st March</b>	<b>46,153</b>	<b>47,376</b>	<b>47,347</b>	<b>47,301</b>	<b>47,945</b>



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**49. HERITAGE ASSETS: FURTHER INFORMATION**

**a) Historic Buildings**

Southsea Castle was built in Henry VIII's reign. During the English Civil War, nearly a century later, the Castle was captured for the only time in its history, by Parliamentary forces. Over the centuries, Southsea Castle's defences were strengthened so that it could continue to protect Portsmouth. In the 19th Century a tunnel was built to defend the Castle moat.

Eastney Beam Engine house is a high Victorian engine house of 1887. It contains a pair of James Watt beam engines.

There are extensive fortifications at the entrance to Portsmouth Harbour in Old Portsmouth that date from the 15th century.

**b) Sculptures**

There are three significant civic sculptures on the Council's balance sheet. These are the Jubilee Fountain in Commercial Road which was commissioned to commemorate the Queen's silver jubilee in 1977. There are also two large civic sculptures near the entrance to the City on the M275, namely the Sails of the South and the masts on Tipner Bridge that were commissioned to commemorate the new millennium.

**c) Memorials**

There are 69 memorials on the Council's balance sheet. Most of these are small some being no more than a tablet. However there are some sizeable war memorials.

**d) Museum Collection**

The Council has four museums, namely the D Day Museum, the City Museum, Charles Dickens Birthplace and Cumberland House. The museum collections are valued at £12.3m.

The D Day Museum has as its centrepiece the Overlord Embroidery which has been loaned to the Council for 99 years. The Museum's unique and dramatic film show uses archive film to bring back memories of the wartime years. There are also extensive displays featuring maps, uniforms and other memorabilia, several vehicles and a real LCVP landing craft.

The City Museum includes a 'Living in Portsmouth' Gallery which looks at life in the home with the reconstruction of a 17th century bedchamber, an 1871 dockyard worker's kitchen, a Victorian parlour, a 1930s kitchen and a 1950s living room. The story continues with 'Portsmouth at Play' on the beach, in the cinema, on the football field and dance floor. There is also a Fine and Decorative Art Gallery, which features a wide range of material from the 17th century to the present day; the Portsmouth Picture Gallery with its extensive and important collection of local paintings, prints and drawings. The City Museum also contains the Conan Doyle archive.

## PORTSMOUTH CITY COUNCIL Annual Report 2011/12

Charles Dickens Birthplace contains furniture, ceramics, glass, household objects and decorations which faithfully recreate the Regency style which Charles's parents would have favoured, although their actual possessions have long since been dispersed. There are 3 furnished rooms: the parlour, the dining room and the bedroom where Charles was born. The exhibition room features a display on Charles Dickens and Portsmouth, as well as a small collection of memorabilia: the couch on which he died at his house in Kent, together with his snuff box, inkwell and paper knife.

Cumberland House contains displays that introduce the wildlife of the area - past and present - including that of the chalk down land at Portsdown Hill and the bird life of the internationally important wetland, Farlington Marshes.

The Acquisition and Disposals Policy for the Council's museum collections is available on the Council's web site.

### **e) Archives**

The Records Office holds the official records of Portsmouth City Council which survive from the 14th century; local Anglican and Non-Conformist church registers and records from 16th century; large collections of material deposited by local businesses, families and other organisations as well as thousands of local maps and plans, photographs and picture postcards.

### **f) Civic Plate**

The civic plate is displayed in the Guildhall and is valued at £3.7m

## **50. HERITAGE ASSETS: CHANGE IN ACCOUNTING POLICY REQUIRED BY THE CODE OF PRACTICE FOR LOCAL AUTHORITY ACCOUNTING**

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our summary of significant accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

### **Heritage Assets**

For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the Authority's summary of significant accounting policies (see Note 1).

In applying the new accounting policy, the Authority has identified that assets that were previously held as community assets within property, plant and equipment at £6m should now be recognised as heritage assets. The Authority will also recognise an additional £41million for the recognition of heritage assets that were not previously recognised on the balance sheet, with a corresponding increase in the Revaluation Reserve. The 1st April 2010 and 31st March 2011 Balance Sheets and 2010/11

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1st April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £47million. The element that was previously recognised in property, plant and equipment has been reclassified and written down by £6million. The revaluation reserve has increased by £41million.
- The fully restated 1st April 2010 Balance Sheet is provided below. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

**Effect on Opening Balance Sheet 1st April 2010:**

	Opening Balance as previously stated at 1st April 2010	Opening Restated Balance as at 1st April 2010	Restatement due to error (see note 44)	Restatement due to change in accounting policy on Heritage Assets as at 1st April 2010
	£000	£000	£000	£000
Property, Plant and Equipment	1,187,117	1,181,265		(5,852)
Heritage Assets	0	47,347		47,347
<b>Long-term Assets</b>	1,271,325	1,308,509	(4,311)	41,495
<b>Total Net Assets</b>	712,879	750,063	(4,311)	41,495
Unusable Reserves	(605,793)	(642,977)	4,311	(41,495)
<b>Net Worth / Total Reserves</b>	<b>712,879</b>	<b>750,063</b>	<b>4,311</b>	<b>41,495</b>

The resulting restated Balance Sheet for 31st March 2011 is provided below. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Effect on Balance sheet 31st March 2011:**

	Opening Balance as previously stated at 31st March 2011 £000	Opening Balance as restated at 31st March 2011 £000	Restatement due to an error (see note 4) £000	Restatement due to a change in accounting policy on Heritage Assets as at 2011 £000
Property, Plant and Equipment	992,230	986,434		(5,794)
Heritage Assets	0	47,301		47,301
<b>Long-term Assets</b>	1,080,792	1,117,986	(4,311)	41,505
<b>Total Net Assets</b>	596,397	633,591	(4,311)	41,505
Unusable Reserves	(471,615)	(508,809)	(4,311)	(41,505)
<b>Net worth</b>	<b>596,397</b>	<b>633,591</b>	<b>(4,311)</b>	<b>(41,505)</b>

The effect of the change in accounting policy in 2010/11 has been that heritage assets are recognised at £47 million on the Balance Sheet resulting in an increase to the Revaluation Reserve of £41 million and property, plant and equipment being restated by the amount of heritage assets previously recognised at cost in community assets (a sub-classification of property, plant and equipment) of £6 million.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**51. TRUST FUNDS**

Portsmouth City Council acts as sole or custodian trustee for four trust funds, and as one of several trustees for a further fifty three funds. In neither case do the funds represent assets of the Council although their cash balances are reflected in the creditor provision of the City Council's Consolidated Balance Sheet. The Trust funds are involved in charitable activities within Portsmouth and have investments in gilt-edged and equity securities.

<b>FUNDS FOR WHICH PORTSMOUTH CITY COUNCIL ACTS AS SOLE OR CUSTODIAN TRUSTEE</b>				
	<u>Income</u> £	<u>Expenditure</u> £	<u>Assets</u> £	<u>Liabilities</u> £
<b><u>Miss A G Burges Bequest</u></b> a registered charity established in 1979 for the research and care of mental and physical handicap in children.	11,334	9,000	119,507	
<b><u>The Whitcombe Charitable Trust Fund</u></b> a registered charity established in 1892 to provide annuities for poor persons.	1,203	3,300	9,073	
<b><u>The Zurich Insurance Travelling Scholarship</u></b> a registered charity established in 1978 to further the language training of Portsmouth pupils.	2,260	0	53,721	
<b><u>The Scale Charitable Trust Fund</u></b> a registered charity established in 1901 to provide annuities to blind persons.	3,441	5,000	20,364	
<b>Sub total</b>	<b>18,238</b>	<b>17,300</b>	<b>202,664</b>	
<b><u>OTHER FUNDS:</u></b>	<u>Income</u> £	<u>Expenditure</u> £	<u>Assets</u> £	<u>Liabilities</u> £
<b><u>Alderman Joe Davidson Memorial Charity Trust</u></b>	41,294	33,185	768,552	1
<b><u>The Lord Mayor of Portsmouth's Charity</u></b>	14,979	22,448	50,153	
<b><u>The Montagu Neville Durnford and Saint Leo Cawthran Memorial Trust</u></b>	14,673	15,550	217,258	
<b><u>Elementary Education Act Properties held pending charitable scheme</u></b>				
Settlement Buckland Youth Activity Centre	813	0	231,335	
New Road Centre	29,765	0	544,592	
Omega Street Centre	65,593	37,161	455,923	
Craneswater Centre	26	6,483	22,024	
Cottage Grove	26,397	0	269,787	
Cumberland Annexe	5,956	0	558,594	
John Pounds Centre	0	0	367,617	
Fernhurst Annexe	0	0	22,899	
Penhale Annexe	2	0	963,454	
Manor House Nursery	8,144	4,030	73,072	
Goldsmith Infant School	2,803	22,099	2,821	
Cumberland Lodge	600	0	170,759	
Stamshaw Infant School	4,165	0	8,348	
<b><u>Others</u></b>	26,282	28,534	300,336	
<b>Sub total</b>	<b>241,491</b>	<b>169,490</b>	<b>5,027,523</b>	<b>1</b>
<b>Total</b>	<b>259,729</b>	<b>186,790</b>	<b>5,230,188</b>	<b>1</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**52. EXIT PACKAGES**

The numbers of exit packages committed with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

(a) Exit package cost band (including special payments)	(b) Number of redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band (£)	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
£0-£20,000	56	241	7	12	63	253	£325,145	£1,441,010
£20,001 - £40,000	7	42	0	5	7	47	£165,585	£1,280,253
£40,001 - £60,000	2	8	0	3	2	11	£107,739	£557,253
£60,001 - £80,000	0	8	0	0	0	8	£0	£560,033
£80,001 - £100,000	0	0	0	0	0	0	£0	£0
£100,000 - £150,000	2	1	1	0	3	1	£381,529	£102,533
£150,001 - £200,000	1	1	0	0	1	1	£174,843	£153,432
<b>Total</b>	<b>68</b>	<b>301</b>	<b>8</b>	<b>20</b>	<b>76</b>	<b>321</b>	<b>£1,154,841</b>	<b>£4,094,514</b>

The number of redundancies in column (b) includes both compulsory and voluntary redundancies.

**53. EXCEPTIONAL ITEMS**

The Council was required to pay the Government a self financing payment of £88.619 million in 2011/12. This was a one off payment to the Government to end the existing negative HRA subsidy arrangements under which the Council was required to pay subsidy to the Government each year.

The council housing stock is carried in the balance sheet at its existing use value – social housing. This is the vacant possession value of the stock reduced by a multiplier to reflect the fact that it is tenanted. The Department of Communities and Local Government issued revised guidance on the valuation of the council housing stock and reduced the Social Housing Multiplier from 45% to 32%. This gave rise to an impairment of £192,619k in 2010/11.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

In the UK budget statement on 22nd June 2010, the Chancellor announced that with effect from 1st April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This had the effect of reducing Portsmouth City Council's liabilities in the Local Government Pension Scheme by £82.15 million in 2010/11 and was recognised as a past service gain exceptional item in accordance with guidance set down in UITF Abstract 48, since the change was considered to be a change in benefit entitlement. There is no impact upon the General Fund.

***54. OTHER SHORT TERM LIABILITIES***

£18,124k of other short term liabilities relates to the Growing Places Fund. The Council holds these funds on behalf of the Department for Communities and Local Government as the accountable body for the Solent Local Enterprise Partnership (LEP). The Solent LEP will lend the funds to organisations that can provide infrastructure to create jobs and homes.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**COLLECTION FUND**

The Collection Fund is an agent's statement that reflects the statutory obligation for billing Authorities to maintain a separate Collection Fund. The Statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to local Authorities and the Government of council tax and non-domestic rates.

2010/11 £000	Income	Note	2011/12 £000
(67,802)	Council tax	1	(68,078)
(14,365)	Transfers from General Fund – Council Tax Benefit		(14,480)
0	Community charge		0
0	Council Tax credits written back		0
(51)	Council Tax write ons		(52)
(69,255)	Income from business ratepayers	2	(76,635)
<b>(151,473)</b>			<b>(159,245)</b>
	<b>Expenditure</b>		
	Precepts		
8,682	Hampshire Police Authority	1	8,763
3,644	Hampshire Fire and Rescue Authority	1	3,678
68,213	Portsmouth City Council	1	68,849
80,539	Business rates		81,290
68,122	Contribution to national pool		75,926
287	Cost of collection		282
142	Interest paid on overpayments		6
	Bad and doubtful debts		
1,405	Amounts written off - Council Tax		270
17	Provision - Council tax		722
495	Amounts written off - NNDR		218
209	Provision - NNDR		203
	Contributions towards estimated surplus		
168	Council tax - Hampshire Police Authority		172
71	Council tax - Hampshire Fire and Rescue Authority		72
1,360	Council tax - Portsmouth CC General Fund		1,355
<b>152,815</b>			<b>160,516</b>
1,342	<b>(Surplus)/Deficit for year</b>		1,271
<b>151,473</b>			<b>159,245</b>
(2,194)	(Surplus)/Deficit b/fwd at 1st April		(852)
1,342	(Surplus)/Deficit for year		1,271
<b>(852)</b>	<b>Fund balance at 31st March - (Surplus)/Deficit</b>	3	<b>419</b>



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**1. Council Tax Base**

The Council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for discounts, exemptions, valuation appeals, disablement reductions etc.) converted to an equivalent number of Band D dwellings is given below:

Band	Estimated no. of taxable properties after allowing for discounts, exemptions etc	Ratio	Band D equivalent dwellings
A	19,185	6/9	12,790
B	24,507	7/9	19,061
C	18,400	8/9	16,356
D	5,084	9/9	5,084
E	3,070	11/9	3,752
F	1,466	13/9	2,118
G	593	15/9	988
H	17	18/9	33
	<b>72,322</b>		<b>60,182</b>
Less: adjustment for non-collection			(903)
Add: MoD dwellings contribution			636
2011/12 tax base			<b>59,915</b>

Multiplying the 2011/12 tax base of 59,914.9 to the standard council tax of £1,356.75, gives the total precepts on the Collection Fund of £81,290k.

The following Authorities precepts are shown below:

2010/11 £000		2011/12 £000
68,213	Portsmouth City Council	68,849
8,682	Hampshire Police Authority	8,763
3,644	Hampshire Fire and Rescue Authority	3,678
<b>80,539</b>		<b>81,290</b>

**2. Income from business ratepayers**

The Council collects, under the arrangements for uniform business rates, non-domestic rates based on local rateable values multiplied by a uniform rate. The total collected is paid to the national non-domestic ratepayers pool managed by Central Government, which returns to the Council its share of the pool via the main Formula Grant and is paid into the Council's General Fund. A balance will be due either to the Government or the Council at 31st March, which is settled in the following financial year.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The total non-domestic rateable value at 31st March 2012 multiplier for the year was £205.048m. The non-domestic multiplier for the year was 42.6p for small business and 43.3p for other non-domestic properties. The gross yield for the year was £86.906m and the net 2011/12 yield was £76.635m.

**3. Collection Fund surpluses & deficits**

Surpluses or deficits incurred on the Collection Fund must be either distributed or made good by specific contributions. Any surplus or deficit anticipated on Council Tax revenues must be allocated between Authorities precepting on the Collection Fund pro rata to their demands on the Collection Fund and transferred to or financed by their General, County or Police fund. The City Council's share of the Collection Fund deficit is £354,878 the Police Authority's is £45,166 and the Fire and Rescue Authority's is £18,956. The precepting Authorities' aggregate shares of council tax assets and liabilities are included within Debtors in the Balance Sheet.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**HOUSING REVENUE ACCOUNT (HRA)**

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with International Financial Reporting Standards, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement in Reserves Statement.

2010/11 £000	Expenditure	2011/12 £000
21,238	Repairs & Maintenance	22,185
	Supervision & Management	
10,743	General	10,107
9,259	Special Services	11,066
1,295	Rent rates taxes & other charges	1,399
786	Subsidy limitation transfer to the general fund	(64)
-	Transitional Measures Transfers to the GF	-
4,924	Negative HRA Subsidy payable	4,323
	Depreciation (and Impairments) of Non-current Assets:	
204,346	- Dwellings	12,009
2,480	- Other Assets	1,776
-	Exceptional Item: HRA Self Financing Payment (See note below)	88,619
58	Debt management costs	84
525	Movement in allowance for bad debts	170
27	Sums directed by the secretary of state	-
<b>255,681</b>	<b>Total Expenditure</b>	<b>151,675</b>
	<b>Income</b>	
(54,357)	Dwelling rents (gross)	(56,574)
(1,982)	Non-dwelling rents	(1,976)
(5,575)	Service charges (Tenants charges for services)	(6,977)
<b>(61,914)</b>	<b>Gross rents</b>	<b>(65,526)</b>
(1,145)	Leaseholders charges for services & facilities	(987)
(464)	Other Charges for Services & Facilities	(640)
(1,659)	Contributions toward expenditure	(1,535)
	HRA Subsidy Receivable	
	Sums directed by the Secretary of State that are income in accordance with UK GAAP(if any)	
	Other income	
	Reduced provision for bad/doubtful debts	
<b>(65,182)</b>	<b>Total Income</b>	<b>(68,689)</b>
<b>190,499</b>	<b>Net Cost of HRA Services as included in the CIES</b>	<b>82,985</b>
132	HRA's share of corporate & democratic core	132
	HRA share of other amounts included in the whole Authority Net Cost of Services but not allocated to specific services	
<b>190,631</b>	<b>Net cost of HRA Services</b>	<b>83,117</b>
	HRA share of operating income & expenditure included in the CIES	
(691)	(Gain) or loss on the sale of HRA non-current assets	(700)
2,136	Interest payable & similar charges	2,867
(285)	Interest and investment income	(505)
788	Pensions interest cost and expected return on pensions assets	505
(72)	Income, expenditure changes in the fair value of investment	(22)
(162)	Capital grants and contributions receivable	(2,974)
<b>192,345</b>	<b>Surplus / Deficit for the year on HRA services</b>	<b>82,290</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**  
**MOVEMENT ON THE HRA STATEMENT**

2010/11 £000	Movement on the HRA Statement	2011/12	
		£000	£000
(7,961)	<b>Balance on the HRA at the end of the previous year</b>		<b>(9,617)</b>
192,345	(Surplus) or deficit for the year on the HRA Income & expenditure account	82,290	
(195,020)	Adjustments between accounting basis & funding basis under statute	(86,855)	
(2,675)	Net (Increase) or decrease before transfers to or from reserves	(4,565)	
1,018	Transfers to / from reserves	3,500	
(1,656)	Increase / decrease in HRA in year		(1,065)
<b>(9,617)</b>	<b>Balance on the HRA at the end of the current year</b>		<b>(10,682)</b>

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

- Capital investment is accounted for as it is financed, rather than when the assets are consumed
- Retirement benefits are charged as amounts payable to the pension funds and pensioners, rather than as future benefits are earned.

The Housing Revenue Account balance compares the Authority's spending against the rental income that is raised in the year, taking into account the use of resources built-up in the past and contributions to reserves for future expenditure.

The Movement on the Housing Revenue Account Statement summarises the differences between the outturn on the Income & Expenditure Account and the Housing Revenue Account balance.

The Movement on Reserves Statement analyses the adjustments between accounting basis and funding basis under statute.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**NOTE TO THE MOVEMENT ON HRA STATEMENT**

2010/11 £000		2011/12 £000
192,345	Increase/decrease in the Housing Revenue Account Balance comprising :	82,290
	(Surplus) / Deficit for the year on the HRA Income and Expenditure Account	
	Difference between interest payable and similar charges including amortisation of	
	premiums and discounts determined in accordance with the SORP and those	
58	determined in accordance with statute	68
	Difference between any other item of income and expenditure determined in	
	accordance with the SORP and those determined in accordance with statutory	
-	HRA requirements (if any)	-
	Difference between any other item of income and determined in accordance with	
-	the code and those determined in accordance with statutory HRA requirements	-
691	Gain or (loss) on sale of HRA Non-current Assets	700
1,461	Reverse actual pension costs	1,451
(1,385)	Current Service Costs	(1,231)
(788)	HRA share of pension interest costs and expected return on pension assets	(505)
1,018	Capital expenditure funded by the Housing Revenue Account	3,500
(193,687)	Impairment	(376)
(1,411)	Transfer to (from) Major Repairs Reserve	(1,355)
135	Transfer for Capital Adjustment Account	(85,645)
72	Changes in the Fair Value of investments	22
-	Transfers to/from RCCO	-
(143)	Accumulating Compensated Absence ( Accrued Holiday Pay)	17
(22)	Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with IFRS	-
<b>(1,656)</b>	<b>(Increase) / Decrease in the Housing Revenue Account Balance</b>	<b>(1,065)</b>
<b>(7,961)</b>	<b>Housing Revenue Account surplus brought forward</b>	<b>(9,617)</b>
<b>(9,617)</b>	<b>Housing Revenue Account surplus carried forward</b>	<b>(10,682)</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Notes on the Housing Revenue Account:**

**Gross Rent Income**

This is the gross rent income for the year after allowance is made for voids etc. During the year, 0.83% of lettable dwellings were vacant. In 2010/11 the figure was 0.70%. Average rents were £72.09 per week in 2011/12, an increase of £2.78 over the previous year.

A further analysis of the Gross Rent figure shown is as follows:

<b><u>Analysis of Gross Rent:</u></b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
<b>Dwelling Rents</b>	(54,357)	(56,574)
<b>Non-dwelling Rents</b>		
- mobile homes	(164)	(170)
- garages	(1,037)	(1,093)
- shops	(557)	(565)
- land	(224)	(147)
<b>Service charges</b>		
- sheltered housing	(2,137)	(2,251)
- general service charge	(2,946)	(4,160)
- heating	(492)	(566)
	<b>(61,914)</b>	<b>(65,526)</b>

The gross rent income is based on the number of days in the year - i.e. in 2011/12, 365 days.

**Council House Tenant Arrears**

During the year, rent arrears as a proportion of gross rent income have increased to 5.1% from 4.9% in the previous year. The figures are as follows:

<b><u>Analysis of Arrears:</u></b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Rent Arrears as a proportion of gross rent	-4.857%	-5.124%
Arrears - current tenants	1,943	2,202
- former tenants	1,064	1,156
Shops & Land	20	14
<b>Net arrears at 31st March</b>	<b>3,027</b>	<b>3,372</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Amounts written off during the year totalled £101,837. Provision for Housing Revenue Account Tenants' Bad Debts since 1st April 2011 charged to the Housing Revenue Account totalled £182,754. The figure for 2010/11 was £588,000. The details of HRA Tenants Bad Debts provision are as follows.

<b>HRA Tenants Bad Debts provision</b>	<b>HRA £000</b>
Balance at 1st April 2011	(2,680)
- less: write offs in 2011/12	102
- add: provision 2011/12	(183)
Balance at 31st March 2012	<b>(2,761)</b>

**HRA Subsidy Payable**

<b>The HRA subsidy payable is broken down as follows:</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Management and maintenance	(30,565)	(31,060)
Major Repairs Allowance	(11,727)	(12,055)
Charges for capital	(3,704)	(4,830)
Rent	51,279	52,222
Interest on receipts	2	1
ASBO Allowance	-	-
Prior year adjustment	(361)	45
	<b>4,924</b>	<b>4,323</b>

Most of the values above are calculated by the government to determine Housing Subsidy. They do not reflect the actual charges for the year. From 2004/05, Government grant for rent rebates is paid into the City Council's General Fund rather than the Housing Revenue Account. However, this has been replaced by a contribution from the HRA to the General Fund in respect of rent rebate subsidy limitation.

**Contributions towards expenditure**

Contributions towards expenditure incurred by the Housing Revenue Account are set out below.

<b>Contributions towards expenditure:</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Supporting People grant - Tenancy support	(602)	(410)
Supporting People grant - Sheltered housing	(699)	(737)
Wardens charges to Social Services	(242)	(230)
Sale of Electricity	(115)	(158)
	<b>(1,658)</b>	<b>(1,535)</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Other Income**

The other income received during the year was made up as follows:

<b>Other income received:</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Leaseholders charges for services and facilities	(1,145)	(987)
Contribution for collection of council tax on behalf of Portsmouth Council Tax account & Havant Borough Council	(111)	(106)
Other charges for services & facilities	(351)	(535)
Reduction in bad debt provisions	-	-
	<b>(1,607)</b>	<b>(1,628)</b>

**Depreciation of fixed assets**

The depreciation charge is broken down as follows:

<b>Depreciation charge:</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Council houses	11,727	12,055
Other land and buildings	358	275
Plant and equipment	845	880
Infrastructure	132	132
Intangible	75	77
	<b>13,137</b>	<b>13,419</b>

**Impairment**

Impairment is the reduction in the value of an asset, measured by specific criteria, to below its carrying amount in the balance sheet.

<b>Impairment Charge:</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Council Houses	192,619	(115)
Other Assets	1,068	491
	<b>193,687</b>	<b>376</b>

**Interest Income**

The interest income shown is made up of the following elements:

<b>Interest income:</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Interest from mortgages given for sold council houses and flats	(1)	(1)
Interest on Cash Balances for the year	(284)	(355)
Interest receivable on leased out assets		(149)
	<b>(285)</b>	<b>(505)</b>

**IAS 19 - Accounting for pensions**



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Applying IAS 19 to the Housing Revenue Account (HRA) will have no overall effect on the HRA balance as the debit to the Income and Expenditure Account is reversed out by an appropriation from the Pensions Reserve in the Statement of Movement of HRA Balances.

**Capital Reserve**

A Capital Reserve was established during 1991/92 as part of the Housing Investment Programme (HIP) financing policy. A contribution to the reserve of £3,500,000 was made during the year from revenue surpluses.

**HRA voluntary set-aside to repay debt or credit arrangements.**

The Local Government and Housing Act 1989 required local Authorities to make a minimum revenue provision for debt repayment. The Council was required to make a provision for debt repayment from the Housing Revenue Account equal to 2% of borrowing used to finance the account, but this provision has been abolished with effect from 2004/05. Authorities may choose, however, to use revenue resources to reduce their HRA capital financing requirement.

**Transfer to/from major repairs reserve**

The Major Repairs reserve was established at 1st April 2001. Movements on the Reserve during the year were:

	Land £000	Houses £000	Other £000	Repayment of borrowing £000	Credit arrangements £000	2010/11 Total £000	2011/12 Total £000
Balance at 1st April 2011	-	15,017	-	-	-	3,290	15,017
Transferred from HRA	-	12,055	1,355			13,138	13,410
Transferred to HRA Financing of capital expenditure	-	(17,734)	(1,355)			(1,411)	(1,355)
	-					-	(17,734)
Balance at 31st March 2012	-	<b>9,338</b>	-	-	-	<b>15,017</b>	<b>9,338</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Housing stock**

The Council was responsible for managing an average of 15,184 dwellings (excluding mobile homes) during 2011/12. The stock as defined by the Housing Revenue Account Subsidy regulations at 31st March was as follows:

Housing Stock:	Number of dwellings	
	2010/11	2011/12
Houses	4,582	4,574
Flats	10,579	10,610
	15,161	15,184
Mobile homes	117	117
	<b>15,278</b>	<b>15,301</b>

The change in stock can be summarised as follows:

Change in Stock	No. of Dwellings	
	2010/11	2011/12
Stock at 1st April	15,302	15,278
Less - Sales	(31)	(20)
Bed sit conversion	0	(2)
Demolished	0	(2)
Add - repurchases	5	2
Change of Use	2	2
Pinnacle properties	0	25
Bed sit conversion	0	11
New build	0	7
	<b>15278</b>	<b>15301</b>
Stock at 31st March	<b>15278</b>	<b>15301</b>

**Balance sheet value of land, houses and property within the HRA**

	Council dwellings	Other land & buildings	Vehicles, Plant & equipment	Infrastructure	Community Assets	Other land & Buildings - Surplus	Other non-operational assets	Intangible assets	Tot
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net book value at 1st April 2011	423,438	16,185	3,903	421	49	88	2,978	585	447
Adjustment Depreciation during the year	(12,055)	(275)	(880)	(132)				(77)	(13)
Adjustment Impairment during the year	115	(567)					76		(
Additions							22,268		22
Disposals	(636)	(2)					(5)		(
Transfers between categories	17,614	853	223				(18,320)	9	
Revaluations		278	18		19	(13)			
Net book value at 31st March 2012	<b>428,476</b>	<b>16,472</b>	<b>3,264</b>	<b>289</b>	<b>68</b>	<b>75</b>	<b>6,997</b>	<b>517</b>	<b>456</b>

**Vacant possession value of dwellings within the HRA**

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

The Vacant possession value of dwellings held within the HRA amounts to £1.339 billion at 31st March 2012. The substantial difference between this figure and the net book value figure of £428m reflects the economic cost to government of providing council housing at less than open market rents.

**Capital expenditure within the HRA**

Capital expenditure during the year and its financing was:

Expenditure	Non-Current Assets			Deferred charges		Total £000
	Land	Houses	Other property	Other property	Grants	
	£000	£000	£000	£000	£000	
Aim 1 - Affordable Housing & Regeneration	88,619	4,477	1,614	0	18	94,728
Aim 2 – Private Housing & Renewal Standards	0	0	0	0	0	0
Aim 3 – Managing Our Council Homes	0	15,065	762	0	0	15,827
Aim 4 – Supported & Special Housing Needs	0	0	0	0	0	0
Aim 5 Housing Choices	0	0	0	0	0	0
	<b>88,619</b>	<b>19,542</b>	<b>2,376</b>	<b>0</b>	<b>18</b>	<b>110,555</b>

Financing	Fixed assets			Deferred charges		Total £000
	Land	Houses	Other property	Other property	Grants	
	£000	£000	£000	£000	£000	
Borrowing	88,619	0	0	0	0	88,619
Usable capital receipts	0	0	1,072	0	18	1,090
Revenue contributions	0	0	0	0	0	0
Major Repairs Reserve	0	16,430	1,304	0	0	17,734
Grants and contributions	0	3,112	0	0	0	3,112
Overdraft at 31st March 2010	0	0	0	0	0	0
	<b>88,619</b>	<b>19,542</b>	<b>2,376</b>	<b>0</b>	<b>18</b>	<b>110,555</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Analysis of Capital Receipts**

Capital receipts from property sales (Council houses, flats and land sales) during the year totalled £1,471k (£1,991k in 2010/11). Total capital receipts are analysed below:

<b>Capital Receipts:</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Land Sales	294	140
Sale of Council Houses and flats	1,697	1,331
Sale of non dwellings	0	0
Capital receipts from property sales	1,991	1,471
- less: Administration costs	(26)	0
	1,965	1,471
Sale of Council Houses - Principal mortgage repayments	10	9
Refund discounts	11	0
<b>Total HRA capital receipts</b>	<b>1,986</b>	<b>1,480</b>

**Exceptional items and prior period adjustments.**

The Council was required to pay the Government a self financing payment of £88,619k in 2011/12. This was a one off payment to the Government to end the existing negative HRA subsidy arrangements under which the Council was required to pay subsidy to the Government each year

**Summary of Bad Debt Provision as per the Balance Sheet**

<b>Bad Debt Provision:</b>	<b>1st April 2011 £000</b>	<b>Additions and reductions £000</b>	<b>Write-offs £000</b>	<b>31st March 2012 £000</b>
Housing rents provision	(2,680)	(183)	102	(2,761)
Sale of flats provision	(108)	30	-	(78)
Other Housing rents	(9)	2	-	(7)
Other HRA Bad Debt provisions	(2)	0	0	(2)
Housing Benefit provision	-	-	-	-
	<b>(2,799)</b>	<b>(151)</b>	<b>102</b>	<b>(2,848)</b>

The overall Housing Revenue Account provision for bad debts has been increased during the year by £49k.

## **PORTSMOUTH CITY COUNCIL**

### **Annual Report 2011/12**

#### **Revenue Expenditure Funded by Capital Under Statute - REFCUS - (formerly Amortisation of deferred charges)**

REFCUS involves capital expenditure that does not result in the creation of a non-current asset. REFCUS amounting to £18,278 was amortised during the year.

#### **Sums directed by the Secretary of State.**

The item "Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with IFRS" covers:

- Monies relating to the cost of administration of the sale of council houses that have been retained from the sale proceeds & accounted for as revenue.
- Also contains the contra entries that enable capital charges to be reversed out in the Statement of Movement in Reserves

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**GROUP ACCOUNTS**

**Introduction**

The City Council conducts most of its activities itself. However, some significant activities of a commercial nature are conducted through a subsidiary company, MMD (Shipping Services) Limited ("MMD").

MMD provides a stevedoring service in the port and also provides shipping, warehousing, and UK road transport and distribution services. Group Financial Statements are produced to reflect the full extent of Portsmouth City Council's involvement with its group undertakings in order to present a clearer picture of the Council's activities in a group. The accounts of MMD itself may be obtained from the Company Secretary, Flathouse Quay, Portsmouth PO2 7SP. The Council has undertaken to continue financial support for its subsidiary for a further year.

In addition, the Council owns a 25% share in the Portchester Crematorium together with three other local authorities, under a Memorandum of Agreement dated in 1956. This memorandum governs the management and constitution of the crematorium. The crematorium operates a trading surplus and funds its own capital expenditure. It also pays a dividend to its owners. This 25% investment has been accounted for in the group accounts as an associate on the acquisitions basis. The audited accounts may be obtained from the Crematorium Office, Portchester, PO16 8NE.

The Council owns a 33.3% share in Portsmouth Harbour Renaissance Limited, a trading company set up originally to administer the grant income received from the Millennium Commission and which is now concerned with the marketing and promotion of the historical side of Portsmouth Harbour. It is owned in equal shares, in conjunction with Havant and Gosport Borough Councils. At the moment it has no income or expenditure and is therefore non-trading. It has current assets of £59k and current liabilities of £57k, leaving a net worth of around £2k. Due to materiality it has been excluded from the group accounts, although it would qualify as an associate. Its accounts may be obtained from the Section 151 Officer, Civic Offices, Portsmouth, PO1 2AR.

The Council is the sole owner of two non-trading subsidiaries, The Southsea Skatepark Company Limited, formed in 2009 to administer and promote the Southsea Skatepark, and Portsmouth Social Housing Limited, formed in 2008 for a planned expansion of the Council's social housing department. The Skatepark company has income of £nil (2011 - £29k), and has incurred expenditure of £nil (2011 - £27k). It has cash assets of £7.2k and fixed assets of £12k; reserves total £19k, with no movement since last year. The social housing company has no assets or liabilities. Neither set of accounts has been audited.

Where applicable and available the audit reports of major subsidiaries and associates are unqualified.

The Group Accounts contain core financial statements similar to those included in the Council's single entity financial statements, consolidated with the figures for the subsidiaries, to give an overall cost of service. The accounting convention adopted in these accounts is principally historic cost modified by the revaluation of certain categories of non-current assets and financial instruments.

The group financial statements are presented in accordance with International Financial Reporting Standards (IFRS), as amended for Local Government use.

## **PORTSMOUTH CITY COUNCIL**

### **Annual Report 2011/12**

In 2010/11 a new statement was included in the Annual Accounts, named Movement in Reserves Statement, as required by IFRS. It shows the movement in the year on the different reserves held by the authority, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other (unusable) reserves. The Surplus or (Deficit) on the Provision of Services line in this statement shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. Details of the City Council’s own reserves are given in the single entity accounts (Notes 8 & 22).

An assessment of relationships with various outside bodies has been conducted to establish whether any of them should be included in group accounts, as the City Council has an interest. Inclusion in the group is dependent upon the extent of the Council’s interest and control over the outside undertaking, thereby establishing the category they would fall under.

#### **Group Accounts**

The group accounts include a share of the operating results, assets and liabilities of qualifying group entities.

#### **Subsidiaries**

A subsidiary is where the Council exercises control of the company and gains benefits or exposure to risks arising from its control. Subsidiaries are accounted for on an acquisition basis, line by line with inter-group transactions written out.

#### **Associates**

Where the Council exercises a significant influence and has a participating interest but not control. Associates are accounted for by including their net operating results in the group income and expenditure account and their reserves in the balance sheet.

#### **Movement in Reserves Statement**

This statement shows the movement in the year on the City Council’s single entity usable and unusable reserves as well as the City Council’s share of the group reserves.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

All £000's	Usable Reserves							Unusable Reserves	Group Authority, share of Reserves of subsidiaries & Associates	Total Group Reserves
	General Fund Balance	Earmarked Reserves	Housing Revenue Account Balance	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves			
<b>Balance at 1 April 2010</b>	(23,655)	(50,402)	(7,962)	(3,290)	(2,497)	(19,280)	(107,086)	(634,798)	(11,195)	(753,079)
<b>Movement in reserves during 2010/11:</b>										
Surplus or (deficit) on the provision of services	(72,128)		192,345				120,217		71	120,288
Other Comprehensive Expenditure and Income								(3,734)	(30)	(3,764)
<b>Total Comprehensive Expenditure and Income</b>	(72,128)		192,345				120,217	(3,734)	41	116,524
Consolidation adjustments to reserves										
Adjustments between accounting basis & funding basis under regulations	66,957		(195,020)	(11,727)	1,469	418	(137,903)	137,903		
<b>Net Increase / Decrease before Transfers to</b>	(5,171)		(2,675)	(11,727)	1,469	418	(17,686)	134,169	41	116,524
Transfers to / from Earmarked Reserves	2,317	(3,335)	1,018							
<b>Increase / Decrease in Year</b>	(2,854)	(3,335)	(1,657)	(11,727)	1,469	418	(17,686)	134,169	41	116,524
<b>Balance at 31 March 2011 carried forward</b>	(26,509)	(53,737)	(9,619)	(15,017)	(1,028)	(18,862)	(124,772)	(500,629)	(11,151)	(636,555)
<b>Movement in reserves during 2011/12:</b>										
Surplus or (deficit) on the provision of services	912		82,290				83,202		316	83,518
Other Comprehensive Expenditure and Income								58,972		58,972
<b>Total Comprehensive Expenditure and Income</b>	912		82,290				83,202	58,972	316	142,490
Adjustments between accounting basis & funding basis under regulations	(11,035)		(86,855)	5,680	(2,008)	(2,630)	(96,848)	96,844		(4)
<b>Net Increase / Decrease before Transfers to</b>	(10,123)		(4,565)	5,680	(2,008)	(2,630)	(13,646)	155,816	316	142,486
Group adjustment between usable and unusable reserves.										
Transfers to / from Earmarked Reserves	3,930	(7,430)	3,500							
<b>Increase / Decrease in Year</b>	(6,193)	(7,430)	(1,065)	5,680	(2,008)	(2,630)	(13,646)	155,816	316	142,486
<b>Balance at 31 March 2012 carried forward</b>	(32,702)	(61,167)	(10,684)	(9,337)	(3,036)	(21,492)	(138,418)	(344,813)	(10,835)	(494,069)
Note: £8.6 million of the General Fund balance at 31st March 2012 (£6.3 million at 31st March 2011) represents schools' balances which can only be spent by schools under devolved budgetary arrangements										

The disclosure of reserves in the group accounts has been revised in 2011/12 and, to aid clarity, the 2010/11 reserves have been amended accordingly. In particular the Group Movement in Reserves Statement in the 2010/11 financial statements showed the reserves of subsidiaries and associates split between a Group Equity Reserve (Usable) and the Authority's Share of Reserves of Subsidiaries and Associates. In addition all reserves in subsidiaries and associates are shown as unusable as they belong to the entity rather than the Council.



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Movement in Usable and Unusable reserves**

<b>Unusable Reserves</b>		
<b>2011</b>		<b>£000s</b>
		<b>2012</b>
67,607	Revaluation Reserve	67,595
0	Available for sale reserve	0
681,976	Capital Adjustment account	588,932
( 3,250)	Financial Instruments Adjustment account	( 2,977)
( 257,817)	Pensions Reserve	( 321,848)
722	Collection Fund Adjustment account	( 355)
( 5,381)	Compensated Absences Adjustment account	( 5,175)
16,903	Deferred Capital Receipts	18,644
11,023	Authority share of reserves of subsidiaries	10,836
<b>511,783</b>	<b>Total Unusable Reserves</b>	<b>355,652</b>
<b>Usable Reserves</b>		
<b>2011</b>		<b>£000s</b>
		<b>2012</b>
26,509	General Fund	32,702
53,737	Earmarked Reserves	61,167
9,619	Housing Revenue Account	10,684
15,017	Major Repairs Reserve	9,337
1,028	Capital Receipts Reserve	3,036
18,862	Capital Grants Unapplied	21,492
0	Authority share of reserves of subsidiary	0
<b>124,772</b>	<b>Total Usable Reserves</b>	<b>138,418</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Group Comprehensive Income & Expenditure Statement.**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from local taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11				2011/12		
Gross Expenditure	Gross Income	Net		Gross Expenditure	Gross Income	Net
£000s	£000s	£000s		£000s	£000s	£000s
			<b>Service Expenditure</b>			
21,600	( 17,049)	4,551	Central services to the Public	20,615	( 16,725)	3,890
23,483	( 3,282)	20,201	Cultural Services	25,445	( 3,287)	22,158
29,591	( 6,778)	22,813	Environmental & Regulatory Services	25,268	( 5,352)	19,916
5,211	( 3,113)	2,098	Planning Services	4,523	( 2,280)	2,243
192,465	( 146,761)	45,704	Children & Educational	181,021	( 129,684)	51,337
58,424	( 38,939)	19,485	Highways & Transport Services	54,128	( 36,707)	17,421
63,062	( 65,182)	( 2,120)	Local Authority Housing (HRA)	63,056	( 68,689)	( 5,633)
117,370	( 103,933)	13,437	Other Housing (General Fund)	120,142	( 107,279)	12,863
82,586	( 22,144)	60,442	Adult Social care	70,736	( 18,978)	51,758
4,977	( 67)	4,910	Corporate & Democratic Core	7,862	( 329)	7,533
( 82,155)		( 82,155)	Exceptional item - Non Distributed Costs			
192,619		192,619	Exceptional item - HRA Impairment			
			Exceptional item - HRA Self Financing			88,619
			Non Distributed Costs	1,366		1,366
			<b>Discontinued operations</b>			
1,046	( 11)	1,035	Cultural Services			
<b>710,279</b>	<b>( 407,259)</b>	<b>303,020</b>	<b>Net Cost of Services</b>	<b>662,781</b>	<b>( 389,310)</b>	<b>273,471</b>
			<b>Other operating costs</b>			
		( 1,137)	Gains & Losses on disposal of Fixed assets			( 3,277)
		75	Precepts & Levies			74
		1,098	Housing capital receipts pool			779
		( 127)	Miscellaneous operating income			( 112)
		<b>( 91)</b>	<b>Other Operating Expenditure</b>			<b>( 2,536)</b>
		19,130	Interest payable & similar charges			21,360
		( 4,860)	Interest & Investment Income			( 3,762)
		( 959)	Trading undertakings & other operations			( 3,386)
		10,980	Pension Interest Cost and expected return on pension assets			7,550
		( 468)	Income, Expenditure and changes in the fair value of investment properties			( 266)
			Corporation Tax charge re subsidiaries			( 41)
		<b>23,823</b>	<b>Financing and Investment Income</b>			<b>21,455</b>
			<b>Sources of Finance</b>			
		( 68,432)	Income from Council Tax			( 69,128)
		( 40,612)	Non Ring-fenced Government Grants			( 54,181)
		( 76,422)	Contribution from Non-Domestic Rates Pool			( 69,707)
		( 20,998)	Capital grants & contributions			( 15,856)
		<b>120,288</b>	<b>Group deficit for the year on the provision of Services</b>			<b>83,518</b>
		( 335)	Share of the surplus on the provision of services by associates			( 156)
		3,029	Surplus or deficit on the revaluation of non-current assets			( 1,322)
		( 6,830)	Actuarial (gains) / losses on pension funds			60,430
		382	Other comprehensive income & Expenditure			
		<b>116,534</b>	<b>Total Group Comprehensive Income &amp; Expenditure deficit</b>			<b>142,470</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Reconciliation of the Single entity Deficit for the year on services to the Group Deficit.**

£000's			£000's
2010/11			2011/12
120,217	PCC income & Expenditure Deficit for the year		83,212
( 64)	Surplus in subsidiaries for the year		( 138)
135	Adjustments relating to Associate		( 16)
0	Adjustment for amortisation of grants in MMD		304
0	Other		156
120,288	<b>Group deficit for the year on the provision of services</b>		<b>83,518</b>

**Group Balance Sheet**

The Balance Sheet shows the value as at the City Council's year end of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

2010/11		2011/12	
£000s		£000s	
		£000s	£000s
		-----	-----
<b>Non Current Assets</b>			
997,309	Property, Plant & Equipment	994,080	
33,372	Investment Property	33,369	
47,301	Heritage Assets	47,944	
1,421	Intangible Assets	1,352	
16,129	Long Term Investments	0	
22,836	Long Term Debtors	24,025	
1,337	Investment in Associates	1,352	
1,119,705	<b>Total Non Current Assets</b>		1,102,122
<b>Current assets</b>			
93,531	Short term investments	166,520	
4,739	Inventories (formerly stock)	2,368	
39,955	Short term debtors	36,711	
25,231	Cash & Cash Equivalents	72,039	
9,023	Assets held for sale	8,092	
172,479	<b>Total Current Assets</b>	285,730	
<b>Current Liabilities</b>			
( 2,915)	Short Term Borrowing	( 6,712)	
( 74,597)	Short Term Creditors	( 67,009)	
( 4,090)	Short Term Deferred Liabilities	( 20,705)	
( 2,734)	Capital grants in advance	( 3,582)	
( 5,168)	Provisions	( 3,957)	
( 89,504)		( 101,965)	
82,975	<b>Total Net Current assets</b>		183,765
1,202,680	<b>Total Assets</b>		1,285,887
<b>Long Term Liabilities</b>			
( 108,509)	Long Term Creditors	( 106,783)	
( 4,976)	Provisions	( 3,942)	
( 190,734)	Long Term Borrowing	( 358,173)	
( 257,817)	Other Long Term Liabilities	( 321,848)	
( 4,089)	Capital Grants Received in Advance	( 1,071)	
( 566,125)	<b>Total Long Term Liabilities</b>		( 791,817)
636,555	<b>Total net assets</b>		494,070
<b>FINANCED BY</b>			
124,772	Usable Reserves		138,418
511,783	Unusable Reserves		355,652
636,555	<b>Total Reserves</b>		494,070

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Group Cash Flow Statement**

The cash flow statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been directed at resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

£000s				£000s
2010/11				2011/12
( 120,288)	Net surplus or (deficit) on the provision of services			( 83,518)
331,025	Adjustment to surplus or deficit on the provision of services for non-cash movements			29,793
( 24,038)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities			142,015
186,699	Net Cash flows from operating activities			88,290
( 176,476)	Net Cash flows from Investing Activities			( 231,132)
( 2,979)	Net Cash flows from Financing Activities			189,650
7,244	Net increase or (decrease) in cash and cash equivalents			46,808
17,987	Cash and cash equivalents at the beginning of the reporting period			25,231
25,231	Cash and cash equivalents at the end of the reporting period			72,039
<b>Reconciliation</b>	£000's	<b>2011</b>	<b>2012</b>	<b>Movement</b>
	Cash	966	1,510	544
	Cash overdrawn	0	( 2,396)	( 2,396)
	Short term investments	24,265	72,925	48,660
		25,231	72,039	46,808

**Notes to the Group Accounts**

Where there is no change to the single entity results that needs to be reported in the group figures, the single entity note is not repeated in the notes to the group accounts. However, where group results need explanations, in addition to the single entity accounts, a note is given.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Accounting Policy for the Group**

The Group Accounts as concerns subsidiaries, have been prepared on the basis of a full consolidation, using the acquisition method, of the financial transactions and balances of the City Council and its subsidiaries. The operations of the subsidiary MMD are all dealt with under Highways & Transport Services. The Associate has been consolidated into group accounts using the equity method whereby the investment in the associate in the balance sheet is adjusted to record the net asset value of the associate and the increase in value is adjusted through the group combined income and expenditure account.

The IFRS code requires Group Accounts to be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The policies to be applied are those specified for the single entity financial statements of the City Council, requiring re-alignment of the policies applied by other group members where they have a materially different effect. However, although the accounts of the major subsidiary MMD have been prepared under UK GAAP, the revaluation of property assets in that company have had the effect of aligning the accounting policies between the parent and its subsidiary, in all material respects.

The subsidiary provides depreciation at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life. Tangible fixed assets, other than freehold land are stated at cost or valuation less depreciation. Where appropriate assets have been impaired to reflect fair value.

The Associate included in the group accounts is the 25% share that the Council enjoys in the Portchester Crematorium. The Council investment share is made up of £1,210k (2011- £890k) of non-current assets, £380k (2011 - £648k) of current assets and £27k (2011 - £39k) of current liabilities. Audited accounts are made up to 31<sup>st</sup> March 2012.

**Operating Results**

The operating result of the MMD subsidiary is included within the service gross income / expenditure to which it relates, (Highways and Transport Services).

£000's	Exp	Inc	Net
Per PCC single entity accounts	42,008	( 24,780)	17,228
MMD	15,853	( 15,964)	( 111)
Elimination of inter-group trading	( 3,733)	4,037	304
Per group I&E Statement	54,128	( 36,707)	17,421

**Disposal of Non Current Assets**

The surplus figure derives from transactions in the City Council £3,277k, (2011- £1,137k) and MMD £165k , ( 2011-£10k).

**Interest Payable**

External interest payable all derives from the City Council.

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Pension Interest Costs and expected return on Pension Assets**

The figures all relate to the City Council and comply with IAS19. The assets of the subsidiary's defined contribution scheme are held separately from those of the company in an independently administered fund, and contributions are charged in the Group Income & Expenditure Statement as they become payable. Contributions by MMD to its defined contribution pension scheme totalled £68k, (2011 - £66k).

**Corporation Tax**

The City Council does not pay Corporation Tax. MMD does not currently pay Corporation Tax by virtue of Corporation Tax losses brought forward. The company has estimated losses of £6,876k (2011 - £6,280k) available to be carried forward against future trading profits. Due to the improbability of a tax asset or liability arising in the short-term, no deferred tax provision has been made.

**Minority Interests**

There are no minority interests.

**Transactions**

All transactions between the City Council and its subsidiaries have been removed from the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and Group Cash Flow Statement, where appropriate, on consolidation.

**Surplus attributable to Subsidiary**

The trading surplus generated by the main subsidiary was £136k, (2011 - £62k).

**Future Commitments**

The subsidiary has a commitment to make future payments under a contract for the improvement of two storage sheds totalling £600k. Commitments in the previous year totalled £1,382k relating to the construction of a new storage shed.

MMD has forward commitments under non-cancellable operating leases as follows:

		<b>Land &amp; Buildings</b>		<b>Other PPE</b>	
All £000's		<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Operating leases expiring					
	Within one year			62	68
	Between 2 & 5 years	70	70	564	301
	In over 5 years	848	848	991	964
		918	918	1,617	1,333

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Current Assets - debtors**

The current assets figure includes the City Council's subsidiary undertakings totalling £4.5 million, (2011 - £4.1 million).

**Current Liabilities - creditors**

The current liabilities figure includes the City Council's subsidiary undertakings totalling £3.1 million, (2011 - £3.1 million)

**Long-Term Investments**

An amount has been eliminated from the Group Balance Sheet relating to the acquisition cost of the main subsidiary totalling £2,070k paid in cash. The Available for Sale Reserve has been eliminated in the group accounts as this adjustment relates to MMD, whose asset and liability fair values are now disclosed on a line-by-line basis in the Group Accounts.

**Parent Loan Account.**

Two loans from the City Council totalling £2,295k are have been advanced to the subsidiary MMD. The loans carry interest at 4.81% per annum. They are repaid in monthly instalments including interest terminating on 31<sup>st</sup> March 2029 and 2030.

**Restructuring in the year**

The MMD haulage business was significantly down-sized from a fleet of over 20 vehicles to just four vehicles on 30<sup>th</sup> June 2011. As a result staff numbers in this trading division were reduced from 24 people to approximately four individuals on 30<sup>th</sup> June 2011. Accordingly, staff redundancy costs were incurred in 2011/12, but it is anticipated that in the future the business will improve its profitability, to compensate.

**Non Current Assets**



**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

Detail	Intangible Assets	Council Dwellings	Land & Buildings	Leasehold land & Buildings	Infra-structure	Community Assets	Vehicles, Plant etc	Assets under construction	Other Surplus Land & Buildings	Investment Properties	Heritage	Held for Sale	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Gross Book Value</b>													
1st April 2011	3,300	697,586	510,490	26,924	119,122	1,552	58,991	37,949	340	33,372	47,630	12,645	1,549,901
Additions			268	2,056			1,248	43,424					46,996
Disposals	(4)	(1,079)	(3,297)		(278)		(3,310)			(84)		(2,267)	(10,319)
Revaluation		(12,044)	(2,528)		(414)	802	(1,342)		(12)	299	365		(14,874)
Reclassifications	301	17,674	14,967		15,855	88	4,591	(53,084)	303	(219)	278	(754)	
<b>31 March 2012</b>	<b>3,597</b>	<b>702,137</b>	<b>519,900</b>	<b>28,980</b>	<b>134,285</b>	<b>2,442</b>	<b>60,178</b>	<b>28,289</b>	<b>631</b>	<b>33,368</b>	<b>48,273</b>	<b>9,624</b>	<b>1,571,704</b>
<b>Depreciation</b>													
1st April 2011	(1,860)		(9,990)	(18,937)	(20,296)		(15,342)				(6)		(66,431)
Charge in year	(366)	(12,055)	(8,123)	(568)	(3,311)		(6,476)				(10)		(30,909)
Disposals		19	8		212		532						771
Revaluations		12,044	2,164		414		1,826						16,448
Reclass / Reversed impairment		(8)	8										
<b>31 March 2012</b>	<b>(2,226)</b>		<b>(15,933)</b>	<b>(19,505)</b>	<b>(22,981)</b>		<b>(19,460)</b>				<b>(16)</b>		<b>(80,121)</b>
<b>Impairment</b>													
1st April 2011	(19)	(274,148)	(112,635)		(4,054)	(20)	(133)		(89)		(323)	(3,621)	(395,042)
Charge in year	(4)	115	(15,384)		(103)	(33)	(139)			299	11		(15,238)
Disposals	4	424	1,872		66		71					1,397	3,834
Revaluations										(299)			(299)
Reclass / Reversed impairment		(52)	(387)						(253)			692	
<b>31 March 2012</b>	<b>(19)</b>	<b>(273,661)</b>	<b>(126,534)</b>		<b>(4,091)</b>	<b>(53)</b>	<b>(201)</b>		<b>(342)</b>		<b>(312)</b>	<b>(1,532)</b>	<b>(406,745)</b>
<b>NBV 31st March 2012</b>	<b>1,352</b>	<b>428,476</b>	<b>377,433</b>	<b>9,475</b>	<b>107,213</b>	<b>2,389</b>	<b>40,517</b>	<b>28,289</b>	<b>289</b>	<b>33,368</b>	<b>47,945</b>	<b>8,092</b>	<b>1,084,838</b>
<b>Comprising in 2012</b>													
<b>PCC - NBV</b>	<b>1,352</b>	<b>428,476</b>	<b>376,866</b>		<b>107,213</b>	<b>2,389</b>	<b>37,926</b>	<b>28,289</b>	<b>289</b>	<b>33,368</b>	<b>47,945</b>	<b>8,092</b>	<b>1,072,205</b>
<b>Subsidiaries - NBV</b>	<b>1,352</b>	<b>428,476</b>	<b>377,433</b>	<b>9,475</b>	<b>107,213</b>	<b>2,389</b>	<b>40,517</b>	<b>28,289</b>	<b>289</b>	<b>33,368</b>	<b>47,945</b>	<b>8,092</b>	<b>1,084,838</b>

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**GLOSSARY OF TERMS**

**Assets**

An item having value to the City Council in monetary terms. Assets are categorised as either non-current or current. A non-current provides benefit to the City Council and to the services it provides for a period of time greater than one year and may be tangible (e.g. a school building, or intangible e.g. computer software licences.) A current asset will be consumed or cease to have material value within the financial year (e.g. cash or stock).

**Capital Expenditure**

Expenditure for capital purposes comprises the acquisition, construction, replacement or enhancement of land, buildings, plant, machinery and vehicles which adds to and not merely maintains the value of an existing non-current asset and which will be used to provide services beyond the current accounting period. Advances of long-term loans (e.g. house purchase mortgages) and grants for capital purposes are included.

**Capital Financing**

These are funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and ear-marked reserves.

**Capital Receipts**

These are the proceeds of sale of capital assets. A proportion of housing receipts – 75% for dwellings – must be paid into a central Government pool, but the remainder is available for new capital projects.

**CIPFA**

The Chartered Institute of Public Finance and Accountancy. This professional body for accountants in the public sector issues general guidance to local authorities defining the form and manner in which their accounts should be compiled. These recommendations are contained in a Statement of Recommended Practice. In addition, the Institute issues further guidance in the Service Accounting Code of Practice (SeRCOP) which sets out “Proper Practice” in relation to Financial Statements.

**Collection Fund**

A separate fund that records the income and expenditure relating to council tax and non-domestic rates.

**Community Assets**

Assets that the City Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks.

**Contingent Liabilities**

Sums arising owing to third parties due to some known event but where the exact amount cannot be determined in advance.

**Continuing Service**

The portfolio of services provided by the City Council is ongoing from year to year. If however a service were to cease, or if a new service were to commence, it would be necessary to show the effect on the Comprehensive Income & Expenditure Statement of the creation or discontinuation from one year to the next.

## **PORTSMOUTH CITY COUNCIL**

### **Annual Report 2011/12**

#### **Corporate & Democratic Core**

The corporate and democratic core comprises all activities that the City Council engages in specifically because it is an elected, multi-purpose authority. The cost of these activities are in addition to those which would have been incurred by a series of independent, single purpose nominated bodies managing the same services. There is therefore no logical basis upon which these costs can be apportioned to services.

#### **Creditor**

Amount owed by the City Council for work done, goods supplied or services rendered within the accounting period, but for which payment had not been made by the end of the accounting period.

#### **Debtor**

Amount owed to the City Council for works done, goods supplied or services rendered within the accounting period, but for which payment had not been received by the end of the accounting period.

#### **Deferred Capital Receipts**

Amounts arising from asset sales where the income is received in instalments over agreed periods. They derive mainly from finance leases.

#### **Depreciation**

The measure of the cost of the wearing out, consumption or other reduction in the useful economic life of the City Council's non-current assets during the accounting period, whether from use, the passage of time, or obsolescence through technological or other changes.

#### **Exceptional Items**

Material items which derive from events or transactions that fall within the normal activities of the City Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

#### **Finance Lease**

A lease which transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.

#### **Formula Grant**

An unring-fenced grant paid by central Government to the City Council contributing towards the general cost of its services.

#### **General Fund**

The total services of the City Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by council tax, government grants and the NNDR.

#### **Housing Revenue Account (HRA)**

A separate account to the General Fund which includes the income and expenditure arising from the direct provision of housing accommodation by the City Council.

#### **Impairment**

A reduction in the value of a non-current asset, measured by specific criteria, to below its carrying amount in the balance sheet.

## **PORTSMOUTH CITY COUNCIL**

### **Annual Report 2011/12**

#### **Comprehensive Income & Expenditure Statement**

The revenue account of the City Council that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income in accordance with International Financial Reporting Standards (IFRS). This is reconciled to the statutory balance on the General Fund through the Movement in Reserves Statement.

#### **Intangible assets**

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the City Council. An example would be computer software licences.

#### **Interest Cost (pensions)**

For a defined benefit scheme this is the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

#### **International Financial Reporting Standards (IFRS)**

International Financial Reporting Standards prepared by the International Accounting Standards Board apply to Local Authorities where they comply with specific legal requirements and are relevant to local authority activities.

#### **Inventories**

Items of raw material and stores that the City Council has procured and holds in expectation of future use.

#### **Investment (Pension Fund)**

The investments of the pension fund will be accounted for in the statements of that fund. However the City Council is also required to disclose as part of the disclosures relating to retirement benefits the attributable share of pension scheme assets associated with their underlying obligations.

#### **Landfill Allowances Trading Scheme (LATS)**

The LATS scheme is one in which each waste disposal authority is allocated a limit on the amount of waste that can be disposed of via landfill. Exceeding this limit may incur a financial penalty per tonne, unless additional allowances can be purchased from other local authorities. The City Council is required to show a notional book value for the allowances allocated in the revenue account and to show the unused allowances on the balance sheet, even though no actual cash has changed hands.

#### **Long-Term Debtor**

Includes balances where the receivable amount will only be collected more than one year into the future.

#### **Materiality**

The concept that the Statement of Accounts should include all amounts which, if omitted or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

#### **Minimum Revenue Provision (MRP)**

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the City Council.

#### **Movement in Reserves Statement**

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

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2011/12**

**Non-Distributed Costs**

These are overheads for which no user now benefits and as such are not apportioned to services.

**National Non-Domestic Rates (“NDR”)**

The Non-domestic rate is a nationally set levy on business premises, set by the Government at a standard rate, charged to businesses and collected by the City Council. The amount collected is paid over to the Government’s national pool and it is then redistributed to local authorities by the Government to support the cost of local services.

**Net Assets**

The City Council’s value of total assets less total liabilities.

**Operating lease**

A lease where the risks and rewards of ownership of the asset remains with the lessor.

**Pension scheme liabilities**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Precept**

The levy made by Precepting authorities on the City Council requiring the latter to collect income from council tax payers on their behalf. Both Hampshire Police Authority and Hampshire Fire and Rescue are Precepting authorities.

**Provision**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but where the amounts or dates of when they will crystallise are uncertain.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Revenue expenditure funded from capital under statute (REFCUS) is expenditure that can be capitalised under statute but which does not result in or remain matched with a tangible asset. Examples of deferred charges are grants of a capital nature to voluntary organisations or home improvement grants, where no repayment is expected.

**Short-Term Borrowing**

Money borrowed for a period of less than one year.

**Trust Funds**

Independent funds administered by the City Council for prizes, charities, specific projects and on behalf of minors.

**Useful Economic Life (UEL)**

Period over which the City Council will derive benefit from the use of a non-current asset.