
NOTICE OF MEETING

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

THURSDAY, 26 SEPTEMBER 2013 AT 3.00 PM

CIVIC OFFICES, PORTSMOUTH

Telephone enquiries to Vixki Plytas
Email: Vicki.plytas@portsmouthcc.gov.uk

Membership

Councillor Terry Hall (Chair)
Councillor David Fuller (Vice-Chair)
Councillor Michael Andrewes
Councillor John Ferrett
Councillor Donna Jones
Councillor Phil Smith

Standing Deputies

Peter Eddis
Councillor Aiden Gray
Councillor Sandra Stockdale
Councillor Alistair Thompson
Councillor Neill Young

(NB This Agenda should be retained for future reference with the minutes of this meeting.)

Please note that the agenda, minutes and non-exempt reports are available to view online on the Portsmouth City Council website: www.portsmouth.gov.uk

Deputations by members of the public may be made on any item where a decision is going to be taken. The request should be made in writing to the contact officer (above) by 12 noon of the working day before the meeting, and must include the purpose of the deputation (for example, for or against the recommendations). Email requests are accepted.

AGENDA

1 Apologies for Absence

2 Declarations of Members' Interests

3 Minutes - 27 June 2013 (and Exempt Appendix to Minutes) (Pages 1 - 12)

To confirm the minutes of the meeting held on 27 June 2013 (including the exempt appendix to the minutes) as a correct record.

RECOMMENDED that the minutes of the meeting held on 27 June 2013 (including the exempt appendix to the minutes) be confirmed and signed by the Chair as a correct record.

(Please note that if there is any discussion on the exempt appendix to the minutes this will need to be in exempt session)

4 Updates on actions identified in the minutes

5 Update Report from the External Auditor (including LG Sector update) (Pages 13 - 30)

The purpose of the paper is to provide the committee with the external Auditor's update report as at September 2013.

RECOMMENDED that the update from the External Auditor be received and that the Chief Executive be requested to take any action required.

6 Annual Audit Results Report 2012/13 (Pages 31 - 42)

Chair to sign the Letter of Representation.

7 Statement of Accounts 2012/13 (Pages 43 - 176)

Chair to sign off.

8 Update on the Council's compliance with its Equality Duty and Equality Impact Assessment Process (Pages 177 - 180)

The purpose of the report is to update the Committee on the compliance of council services with the Equality Duty and the Equality Impact Assessment process since the last report dated 27 June 2013.

RECOMMENDED

- (1) That the Committee notes the contents of the report;**
- (2) That the Committee continues to monitor the compliance of the Council services with the Equality Duty and the Equality Impact Assessment process adopted by the Council, on a quarterly basis.**

(3) That the City Solicitor continues to report on such compliance to the Committee on a quarterly basis.

9 Revision to Equality & Diversity Strategy 2014 - 17 - "Information only" report (Pages 181 - 186)

The purpose of the report is

- to inform the Committee about a planned revision of the current Equality & Diversity Strategy, and
- Outline the approach that will be applied to consultation and engagement with our staff, residents and key partners, which will assist us with developing a refreshed strategy.

10 Compliance with the Gifts and Hospitality Protocol (Pages 187 - 202)

The purpose of the report is to update members on any issues regarding compliance with the Gifts and Hospitality protocol and to advise on remedies.

RECOMMENDED that the report be noted and Members consider an increase in the current level up to which gifts may be accepted, currently £25.

11 Audit Performance Status Report to 30 August 2013 for Audit Plan 2013/14 (Pages 203 - 210)

The purpose of this item is to update the Committee on the Internal Audit Performance for 2013/14 to 30 August 2013 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

RECOMMENDED

(1) that Members note the Audit Performance for 2013/14 to 30 August 2013

(2) that Members note the highlighted areas of control weakness for the 2013/14 Audit Plan.

12 Audit Charter & Code of Ethics (Pages 211 - 224)

The purpose of the report is to gain Members' approval for the revised Portsmouth City Council's Internal Audit Charter to ensure that it complies with the new Standards and Code of Ethics following the introduction of the "Public Sector Internal Audit Standards" by the Institute of Internal Auditors.

RECOMMENDED that Members approve the revised Internal Audit Charter and Code of Ethics.

13 Treasury Management Outturn 2012/13 (Pages 225 - 250)

The purpose of the paper is to report on

- The outturn Prudential Indicators for 2012/13
- The Treasury Management decisions taken over the course of 2012/13

RECOMMENDED that the recommendations set out in paragraph 4 of the report relating to Appendices A and B be approved.

14 Treasury Management Monitoring Report for the First Quarter of 2013/14 (Pages 251 - 274)

The purpose of the report in Appendix A is to inform members and the wider community of the Council's Treasury Management position at 30 June 2013 and of the risks attached to that position.

RECOMMENDED that the actual treasury management indicators for the first quarter of 2013/14 set out in paragraph 4 of the report be noted.

15 Performance Management Update - Q1, 2013-14 (Pages 275 - 280)

The purpose of this performance report is to provide a summary of information received as part of quarter one reporting for 2013 - 14, and an indication of how work around cost benchmarking will be taken forward.

RECOMMENDED that the Governance and Audit and Standards Committee are asked to note the report and comment on:

- a) Performance issues as set out in section 4**
- b) The approach to cost benchmarking set out in section 7.**

16 Annual Governance Statement 2012/13 (Pages 281 - 324)

The purpose of this report is to:

- a) Provide an update on progress being made against the key governance issues, as highlighted in the 2011/12 Annual Governance Statement.
- b) Share the updated Local Code of Governance
- c) Seek Members' approval of the Annual Governance Statement (AGS) for signature by the Leader of the Council and the Chief Executive.

RECOMMENDED that the Governance and Audit and Standards Committee:

- a) Note the progress made against the 2011/12 annual governance issues as set out in Appendix A.**
- b) Approve the 2013 Local Code of Governance in Appendix B for publication.**
- c) Approve the 2012/13 Annual Governance Statement in Appendix C for publication (subject to any amendments**

requested by the committee).

17 Data Breach Reporting (Pages 325 - 326)

(Please note that appendix 1 is exempt so if the Committee wishes to discuss this, the meeting will need to move into exempt session at that point)

The purpose of the report is to update Members on Data Breaches that have arisen during 2013 and the actions taken. The appended report is exempt

RECOMMENDED that Members of the Governance and Audit and Standards Committee note the breaches that have arisen and the action determined by CIGP

18 Exclusion of Press and Public

That in view of the contents of the following item on the agenda the Committee is RECOMMENDED to adopt the following motion:

“That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the press and public be excluded for the consideration of the following item(s) on the grounds that the report(s) contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972”.

The public interest in maintaining the exemption must outweigh the public interest in disclosing the information.

(NB The exempt/confidential committee papers on the agenda will contain information which is commercially, legally or personally sensitive and should not be divulged to third parties. Members are reminded of standing order restrictions on the disclosure of exempt information and are invited to return their exempt documentation to the Senior Local Democracy Officer at the conclusion of the meeting for shredding.)

<u>Item</u>	<u>Exemption Para No.*</u>
19. Data Breach Reporting - Appendix 1 Paragraph Exemption Nos:	1,2 and 3
20. Exempt appendix to open Minutes from 27 June 2013 meeting 45,46,47 and 48	1,2,3 4 and 5
1. Information relating to any individual	
2. Information that is likely to reveal the identity of an individual	

- 3. Information relating to the financial or business affairs of any particular person (including the authority holding that information)**
- 4. Information relating to any consultations or negotiations or contemplated negotiations or contemplated consultations or negotiations, in connection with any labour relations matter arising between Portsmouth City Council and the Trade Unions**
- 5. Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings**

19 Data Breach Reporting - exempt appendix 1

20 Exempt appendix to open minutes 45,46,47 and 48 from 27 June 2013 meeting of Governance and Audit and Standards Committee

Agenda Item 3

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF A MEETING of Governance & Audit & Standards Committee held on Thursday 27 June 2013 at 2.00 pm in Conference Room L, Civic Offices, Portsmouth.

(NB These minutes should be read in conjunction with the agenda for the meeting which can be found at www.portsmouth.gov.uk.)

Present

Councillor Terry Hall (Chair)
Councillor David Fuller (Vice-Chair)
Councillor Michael Andrewes
Councillor Phil Smith
Councillor Donna Jones
Councillor John Ferrett

Officers Present

Michael Lawther, City Solicitor and Strategic Director
Jon Bell, Head of HR, Legal & Performance
Mark Justesen, External Auditor
Iwona Defer, Equalities Officer
Ms Lyn Graham, Chief Internal Auditor
Mr David Pennery, Auditor
Megan Southcott, Strategy Adviser
Stewart Agland, Local Democracy Manager
Kelly Nash, Corporate Performance Manager
Greg Povey, Procurement Manager

31 Apologies for Absence (AI 1)

Councillor David Fuller apologised for lateness.

32 Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

33 Minutes of the meeting held on 14 March 2013 (including the exempt minute) (AI 3)

RESOLVED that the minutes of the meeting held on 14 March 2013 (including the exempt minute) be confirmed and signed by the chair as a correct record.

34 Updates on Actions identified in the Minutes (AI 4)

The following matters were clarified:

- With regard to public health training, the City Solicitor said that he and the interim Director of Public Health are putting together some training material and this would be delivered on an informal basis. He confirmed that this matter is in hand.
- With regard to whistleblowing, the matter is in the hands of the Communications team and the City Solicitor undertook to chase this up.

35 Update Report from the External Auditor (AI 5)

Mr Mark Justesen gave an overview of the work currently being done and what was expected to be done over the next year. He said that the draft accounts were due next week. Mr Justesen said that it was timely that performance management and risk management were on the agenda for the committee this time as these were identified risks to the VFM conclusion that he was currently working on. Further discussion with PCC's Head of Finance about these issues was scheduled for the following week.

The City Solicitor confirmed that quarterly meetings were held with the external auditors and that any issues were raised at these meetings.

Mr Justesen said that the overall message was that so far everything seemed to be on track.

RESOLVED that the verbal update from the External Auditor be received.

36 School Transport and Student Awards Appeal Committee - Appointments 2013/14 (AI 6)

RESOLVED that the appointment of Councillors Hall, Fuller and Young be confirmed by the Governance & Audit & Standards Committee to serve on the School Transport and Student Awards Appeal Committee for the 2013/14 municipal year, with Councillors Andrewes, Smith and Jones being appointed as standing deputies.

37 Update on the Council's Compliance with its Equality Duty and Equality Impact Assessment Process (AI 7)

(TAKE IN REPORT)

Ms Iwona Defer explained that the table shown in 3.2 compared services' compliance with the council's three year rolling EIA process as at 29 May 2013. She said that although Transport & Environment Service have now provided an updated list of the major service areas that require EIAs and have proposed timescales for their completion, Adult Social Care is now giving cause for some concern as there are a number of outstanding EIAs in major service areas. She explained that the Equality & Diversity team is working with that service to ensure completion of the EIAs without further delay.

The City Solicitor said that Adult Social Care is a matter of concern and that he would talk to the appropriate head of service. He said that if services do not comply with the EIA obligations there are cost implications. He said that this was an avoidable risk and that it was useful for this committee to monitor the position on a regular basis.

RESOLVED (1) that the committee notes the contents of the report;

(2) that the committee continues to monitor the compliance of the council's services with the Equality Duty and Equality Impact Assessment process adopted by the council on a quarterly basis;

(3) that the city council continues to report on such compliance to the committee on a quarterly basis.

38 Modification to the Petitions Scheme (AI 8)

(TAKE IN REPORT)

The Local Democracy Manager introduced the report which had been written in response to a change in the legislation (meaning that the prescribed scheme was no longer compulsory) and also because of the number of petitions that were presented to full council at its last meeting.

During discussion the following matters were clarified:

- The Local Democracy Officer said that as there seemed to be some urgency to get a revised procedure before councillors at the July meeting, the matter had not been referred to the Constitutional Working Group and the report had not therefore been considered by them.
- A majority of members present felt that the democratic process would best be served by reducing the number of signatures required from 1,000 to 500. A majority of members also wished to allow petitions received on matters that had already been considered by the local authority within the preceding 24 months, to trigger a debate by the appropriate decision making body (including full council) if at least 1,000 signatures were collected.

The Local Democracy Manager revised some of the recommendations in the report in light of Members' comments. These were put before the committee and were agreed.

RESOLVED that the committee recommends to council

- (1) that the petition scheme be changed so that Petitions for debate submitted with the support of at least 500 signatures, be reported to and considered by the relevant decision making Body of the Council, (or the Full Council if the petitioner so wishes even if the Full Council is not the relevant decision making body). This is on the basis that the Local Authority through any part of its political management structure (eg Full Council, Cabinet or Portfolio holder) has not already considered the matter which is the subject of the petition within the preceding 24 months of its submission.**
- (2) That further to 1. above, for petitions received on matters that have been considered by the Local Authority within the preceding 24 months following submission, at least 1000 signatures would be required to trigger a debate by the appropriate decision making Body of the Council, including the Full Council, if the petitioner so wishes, even if the Full Council is not the relevant decision making body.**
- (3) That the City Solicitor be authorised to make the requisite changes to the scheme and associated supporting documents to reflect the above:**
- (4) That Standing Order 13 (f) be amended by the inclusion of the following words in brackets after "receive and debate written petitions" (submitted from the public at least 12 days before the meeting and which contain at least 500 signatures and are on issues either (a) within the power of Full Council or, (b) the petitioner has requested it be debated by Full Council even if Full Council is not the decision making body; this is on the basis that the Local Authority, through any part of its political management structure, has not previously considered the matter which is the subject of the petition within the preceding 24 months following submission.**

That for petitions concerning issues which the Local Authority has already considered within the preceding 24 months following petition submission, at least 1000 signatures would be required to trigger a Council debate if the matter is within the powers of the Full Council, or the petitioner so requests.

(Full Council debates will commence with the lead petitioner being given 6 minutes to present their petition, followed by the Administration proposing its response to the petition and the normal rules of debate applying).

39 Annual Internal Audit Report for the 2012/13 Financial Year (AI 9)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report and said that 100% of the revised annual audit plan had been completed. She said that seven more critical exceptions had been raised and that these were set out in paragraph 6 of the report with the agreed action to address them.

In response to questions the following matters were clarified:

- In relation to the home to school transport forecast overspend, the chair of the committee asked how PCC's budget compares with those of other comparable authorities and suggested that a report might be taken to the Cabinet Member for Education & Children either to increase the budget available or to reduce the overspend. The chair also requested a report back to this committee. City Solicitor to progress.
- With regard to legionella, the Chief Internal Auditor said that in the past there was no corporate consistent approach but that now this has been introduced. The main concern was around the area of schools. The City Solicitor said that a letter would be sent to schools including the new policy and this requires headteachers to respond in writing to include details of how they intend to deal with this matter. Academy schools have opted out and foundation schools will be excluded. The City Solicitor said that the authority could only seek to influence the schools to take responsibility and realise it is down to them. The groups responsible now have regular meetings. The Chief Internal Auditor confirmed that there was regular reporting under risk management.
The Head of HR, Legal & Performance said that health and safety came within the HR function but it was also Asset Management related. He said that there was a need for some joint working as legionella fell within several areas of responsibility which the new policy seeks to address. The City Solicitor said that ultimately he and the Chief Executive have responsibility for health and safety issues.
- The Chief Internal Auditor said that the reason that domiciliary care audit had been deferred to 2013/14 was because of a lack of availability of key staff in social care. Members requested more detail on the reasons for deferring audits to be included in reports to this committee.
- Members expressed concern about the MMD accounting system. The Chief Internal Auditor said that a three year programme had been agreed and this year's audit would be reported to the Governance & Audit & Standards Committee. The Chair and Councillor Jones agreed to meet with the Board of MMD to seek further assurances.

RESOLVED that

- (1) Members note the Audit performance for 2012/13;**
- (2) the highlighted areas of control weakness for the 2012/13 Audit Plan are noted by Members;**
- (3) Members note the Annual Audit Opinion on the effectiveness of the system of internal control for 2012/13;**
- (4) Members note the Audit Plan for 2013/14.**

40 Update on the Development of the 2012/13 Annual Governance Statement (AI 10)

(TAKE IN REPORT)

Meg Southcott, Strategy Adviser introduced the report and said that it provided an update on progress being made against the key governance issues highlighted in the 2011/12 Annual Governance Statement and on the development of the Annual Governance Statement for 2012/13. She explained that the authority has a duty to produce and publish an annual governance statement in accordance with the Accounts and Audit (England) Regulations 2011. She said that progress will continue to be reported to this committee on a regular basis and would also be monitored by the Corporate Governance Group on a quarterly basis.

During discussion the following matters were clarified:

- With regard to Appendix A page 3 concerning CRB checks, it was confirmed that there are now restrictions on who these apply to. If forms are completed and sent in when not appropriate, this could result in fines being issued. The City Solicitor confirmed that although CRB changes from 1 September had been communicated to strategic directors, revised guidelines for managers had not been issued to all services at a corporate level because further information is still awaited from the Disclosing and Barring Service (DBS). The Head of HR, Legal & Performance said that work is taking place with those individual services that are more affected. He said that the updated DBS service will come into force on 17 June 2013 and that a report would be going to Employment Committee to authorise the new process. The City Solicitor said that he would check that Councillor Neill Young had been updated on matters to do with CRB checks/DBS as he had raised the issue previously and had asked for an update.
- It was confirmed that the LAMP programme was not totally on course but that the Employment Committee had regular updates on this.
- With regard to looked after children issues, although this is a major area of concern, this is dealt with primarily by the Safeguarding Board rather than the Governance & Audit & Standards Committee.

- In response to a query about engaging with PCC's customers, it was confirmed that the last MORI poll had been done approximately five years ago but that these were no longer routinely carried out. The Head of HR, Legal & Performance said that community engagement fell within the Customer, Community & Democratic Services area and that this matter could be addressed to that head of service, Louise Wilders.
- It was confirmed that there was no specific budget for member training.

RECOMMENDED that the Committee

- (1) Notes the progress made against the 2011/12 annual governance issues;**
- (2) Notes the process followed to identify significant governance issues and consider the content of the draft 2012/13 Annual Governance Statement.**

41 Performance Management Update (AI 11)

(TAKE IN REPORT)

Kelly Nash, Corporate Performance Manager introduced the report which updates members on work in relation to corporate performance monitoring since the last reporting period with a specific focus on work around value for money provided by the authority. She said that PCC has spent time reflecting on arrangements that will be required to discharge corporate performance management responsibilities in the light of changes to national monitoring arrangements including the review of risk management arrangements.

She explained that service heads had been asked to summarise their service's approach and judgements around value for money according to a set of lines of enquiry set out by Strategic Directors Board. A process had now been followed whereby almost every service head had presented their plans and value for money work so far, to the Strategic Directors Board. Service heads would be asked to report against their presentations on a quarterly basis.

During discussion the following matters were clarified:

- With regard to Appendix 1, these corporate performance indicators were subject to further development and change throughout the quarterly performance cycle.

- It was explained that 5.4 of the report outlined how it was envisaged that a comparison could be made across services but that this would always be difficult as it would not be a like for like comparison. However information about service costs and performance over time would in itself provide a valid point of comparison. It was also very difficult to compare PCC's performance as against other councils as things are carried out differently. The City Solicitor said that it was worth noting that many of our services come out as being low cost when such comparisons were made.
- Under the Customer, Community & Democratic Services section, members asked what the proportion of staff who feel well informed and proud to work for the council was currently and why it had been decided to aim to increase this by 5%.
- Members were pleased that regular reports on outcomes of value for money work would be presented to this committee.

RESOLVED that the committee noted the report and commented on the further work proposed in section 5, with a specific focus on issues of Value for Money, as in paragraph 5.4.

42 Risk Management (AI 12)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report and said that risk management is seen as an essential part of governance and a review of risk management arrangements concluded that the focus should be on embedding a risk awareness culture. She said that the idea of evolving and embedding a risk culture means that risks are considered and managed as part of everyday activity including specific targets and performance objectives. A fundamental core set of principles are encapsulated in the revised draft risk management policy and procedures attached at Appendix A of the report. The Chief Internal Auditor explained that it is suggested that there should be a move away from having a corporate risk register to having a risk directory that will record all the significant risks facing the organisation derived largely from operational sources and that the draft policy and procedures defines significant risk in paragraph 2.4.2.

Members welcomed the staff awareness training set out in 2.2 of the policy but felt that staff should also be made aware of the positive side of risk management.

RESOLVED that the committee approves

- (1) The draft Policy and Procedures;**
- (2) The next steps towards embedding a risk culture,**
- (3) A review in 6 months' time of progress**

43 Proposed Revision to the Terms of Reference of the Health Overview and Scrutiny Panel (AI 13)

(TAKE IN REPORT)

The City Solicitor explained that the purpose of the report is to consider proposed revision to the terms of reference of the Health Overview & Scrutiny Panel (HOSP) which need to be updated following recent changes in legislation and also to reflect the fact that Portsmouth Local Involvement Network (LINK) no longer exists.

The City Solicitor advised that as a change to the terms of reference amounted to a constitutional change this requires approval from full council.

RESOLVED that the Committee recommends to full council that the proposed changes to the terms of reference of the Health Overview and Scrutiny Panel, as set out in attached appendix 2, be approved.

44 Exclusion of Press and Public (AI 18)

It was proposed by Councillor Terry Hall, seconded by Councillor David Fuller, that in view of the contents of the remaining items on the agenda the Committee is RECOMMENDED to adopt the following motion:

“That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the press and public be excluded for the consideration of the remaining items on the grounds that the report(s) contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972”.

Upon being put to the vote this was CARRIED.

45 Data Breaches and associated remedial action (AI 14)
(TAKE IN REPORT)

The City Solicitor outlined the data breaches that had arisen during 2013 and the actions taken. He explained that a potential data breach is presented to the Corporate Information Governance Panel which he chairs, by the service in which the breach occurred. The Corporate Information Governance Panel determine the severity, remedial actions and need for onward reporting to the Information Commissioner's Office (ICO). The City Solicitor advised that eight potential breaches had been reported to the Corporate Information Governance Panel. The City Solicitor said that the ICO could issue fines of up to £500,000 for serious breaches of the Data Protection Act and Privacy and Electronic Communications Regulations. He said that any breaches put the city council at risk of the unbudgeted cost of a financial penalty which would have to be met from the service responsible for the breach. The City Solicitor advised that so far, the authority has not been fined for any data breaches.

RESOLVED that Members of the Committee note the breaches that have arisen and the action determined by Corporate Information Governance Panel.

46 Regulation of Investigatory Powers Act 2000 (RIPA) (AI 15)

(TAKE IN REPORT)

The City Solicitor introduced the report and said that its purpose was to update members on the authority's use of regulatory powers for the period from March 2013 and the changes required to the policy following a visit by the OSC Inspector as well as the outcome of that visit.

He advised that one Regulation of Investigatory Powers Act (RIPA) application regarding a blue badge fraud had been made since the last report to the committee in March. Following an inspection by the Office of Surveillance Commissioners (OSC) on 4 April 2013, there had been further minor amendments required to the policy and the changes had been provided to all relevant staff. The OSC Inspector has issued their report which found that all previous recommendations had been actioned, that PCC has raised their compliance to a higher level and made one recommendation regarding recording of surveillance details and product at the cancellation stage.

The City Solicitor said that although this was a good news story, the Office of Surveillance Commissioners had not agreed to allow their report and letter to be made open to the press and public in spite of a request that this be permitted. However an extract from the covering letter is included in the open report at item 7.

RESOLVED that the Committee

- (1) Notes the RIPA applications authorised since March 2013,**
- (2) Approves the required changes to Policy as a result of the OSC Inspection regarding the inclusion of the 4 proportionality tests, recording of dates and times of surveillance, update of Code of Practice references and removal of urgency provisions,**
- (3) Notes the OSC inspectors report from 4 April 2013 inspection.**

47 Procurement Management Information (AI 16)

(TAKE IN REPORT)

Greg Povey, Procurement Manager introduced the report which updates members on steps being taken to demonstrate that PCC is achieving value for money from its contracts for goods and services. The report updates members on progress made by services up to the end of April 2013 and provides members with a progress report to monitor the situation as shown in open appendix 1. He said that conformance has improved year on year from 93% in April 2012 to 98% in April 2013 and year to date conformance is 98%. He said that had contracts been entered correctly ie without admin errors then the conformance figure as at April 2013 would have been 99%. Category business partners from Procurement are working in partnership with services to implement solutions to resolve non-conformance and reduce administration issues.

Mr Povey said that the results of the contracts being monitored are set out in 4.2 of the report.

He said that there are seven contracts where the suppliers are performing to an unsatisfactory level and remedial action was taken and these were set out in exempt appendix 3.

Clarification was provided to members in respect of queries raised by them in relation to the exempt appendices.

RESOLVED that

- (1) members note we have surpassed the target of 95% conformance and achieved 98% for April 2013.**
- (2) That members note the performance of our suppliers and contractors and action in progress to address poor performance.**

48 Southsea Community Leisure Limited Internal Audit Report (AI 17)

(TAKE IN REPORT)

A query was raised by Councillor John Ferrett about the need for appendix A - exempt internal audit follow-up report February 2013 - to be exempt. The City Solicitor said that he would consult with Southsea Community Leisure Limited to ask them whether they would be prepared to agree to allow appendix A to be made open. The City Solicitor made clear that currently appendix A was exempt.

Councillor Phil Smith said that the report affected all wards and not just St Jude's and Eastney & Craneswater as mentioned in the heading of the report.

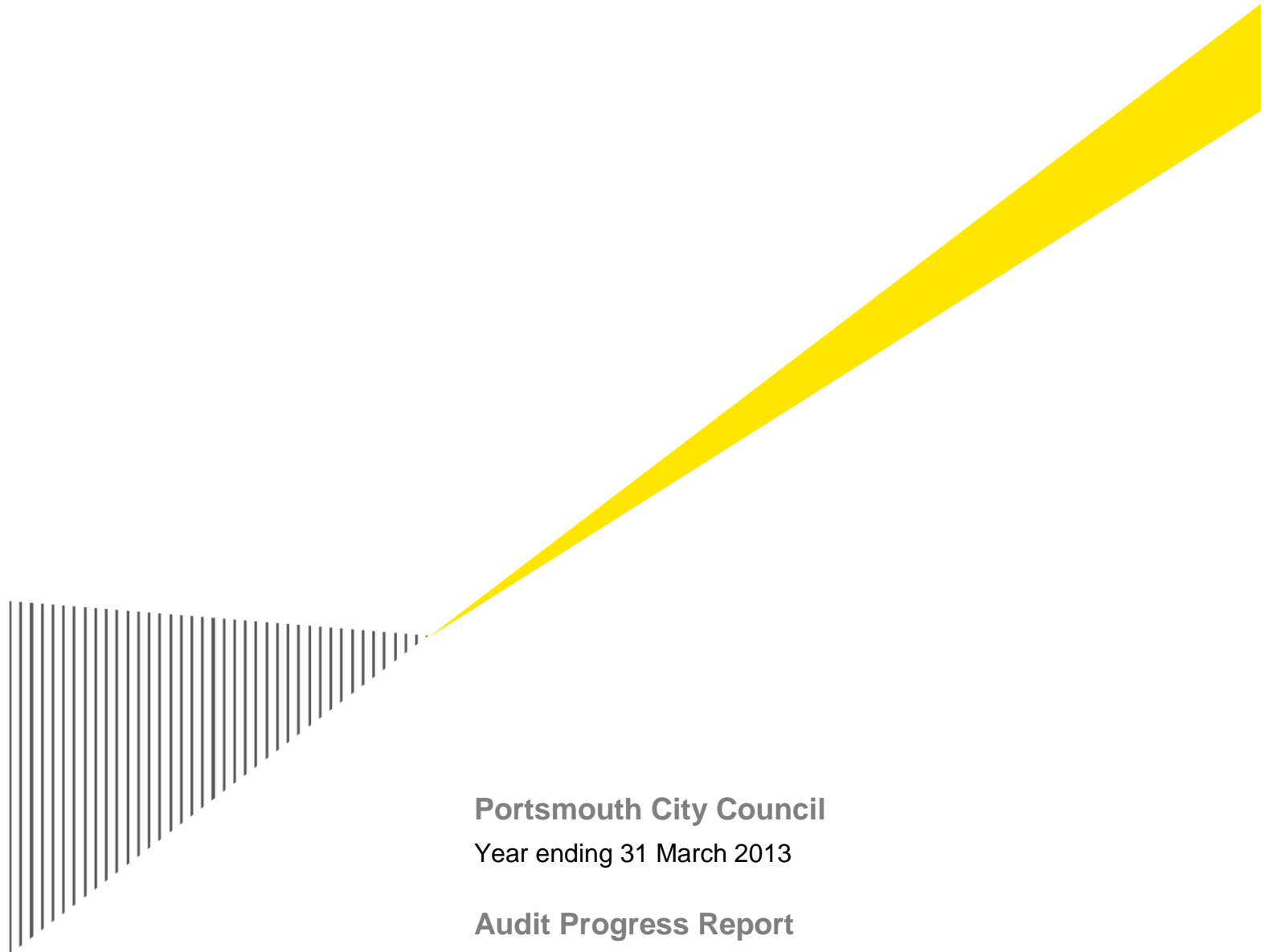
Following further discussion members agreed the recommendations other than adding in the words "if required" at the end of the recommendation.

RESOLVED that given a number of improvements are still to be implemented and those which have been cannot yet be assumed to be embedded a further follow-up audit is undertaken in the autumn of 2013, if required.

The meeting ended at 5.00 pm.

Chair

Agenda Item 5



Portsmouth City Council

Year ending 31 March 2013

Audit Progress Report

March 2013

Governance, Audit and Standards Committee
Portsmouth City Council
Civic Offices
Guildhall Walk
Portsmouth
PO1 2AL

21 February 2013

Dear Sir/Madam

Audit Progress Report - 2012/13

We are pleased to attach our September 2013 Audit Progress Report. The purpose of this report is to provide the Audit Committee with an overview of progress against the milestones set out in your 2012/13 Audit Plan and is the first step in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kate Handy
Director
For and behalf of Ernst & Young LLP
Enc

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1. Work completed

Meetings

Since we last reported to you in March, we have continued our regular programme of meetings as follows:

- Monthly meetings with Head of Finance to discuss key issues, topical concerns, Council performance against budget and accounting matters
- Monthly meetings with Chief Internal Auditor to discuss risks, audit findings, the programme of investigations and to coordinate work programmes
- Quarterly meetings with the Chief Executive and Monitoring Officer to discuss strategic issues with relevance to our VFM conclusion, communications from members of the public and wider matters relating to our Code responsibilities.

We have also met with other officers as part of our more detailed work on the financial systems and VFM conclusion and some of the key meetings are set out here:

- Head of HR, Legal & Performance, Corporate Strategy Manager and Corporate Performance Manager re strategic direction, performance management and risk management
- Head of Community Safety, Head of Public Health Business Strategy and Deputy Head of Finance re transfer of public health responsibilities
- Head of Integrated Commissioning Unit re integration with health, and pooled budget operation and development
- Deputy Head of Finance (and team members) re medium-term financial planning, and changes to arrangements for council tax support and business rates.
- Numerous and assorted finance and Oracle EBS contacts, in corporate and service teams, during the course of our audit fieldwork.

Assessment of the Council's internal controls

We have reviewed the design of the Council's core financial systems and have tested the operation of key controls within those systems. We concluded that we could rely on them for opinion purposes and have no issues of note to report to members.

Grant claim certification

We have started our work on the certification of your claims, with fieldwork underway on the housing benefit, pooling of housing receipt and NNDR claims and work set up our work on most of the others.

The only exceptions are the two TRA 11 grant claims (for Tipner and the Northern Road Bridge), where no work has been undertaken pending resolution of discussions with the Audit Commission.

2. Timetable

Audit Committee Timeline

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts, and the deliverables we have agreed to provide to you through the 2012/13 Audit Committee cycle.

We will provide formal reports to the Audit Committee throughout our audit process as outlined below. Where required, we will issue an Interim Report, summarising the findings from our audit at that stage. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Deliverables
High level planning:	November	Fee Letter
Risk assessment and setting of scopes	November/ January	
Testing of routine processes and controls	February/March	Audit Plan Interim Report (if required)
Value for money conclusion	March/June	Report to those charged with governance
Year-end audit	July – September	Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources). Audit completion certificate Whole of Government Accounts Certification
Reporting	October	Annual Audit Letter
Grant claims	December	Report on the audit of grant claims

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters through our Sector Briefings.

Appendix 1: Audit Progress on Deliverables

Progress against key deliverables

Key deliverable	Timetable in plan	Status	Comments
Fee Letter	December 2013	Completed	Reported to Chief Executive, Chair of Governance, Audit and Standards Committee, Head of Finance and Head of HR, Legal & Performance
Audit Plan	March 2013	Completed	Discussed with officers and agreed with Members at the March Committee
Report to Those Charged with Governance	September 2013		
Audit Report (including opinion and vfm conclusion)	September 2013		
Audit Certificate	September 2013		
WGA Certificate	September 2013		
Annual Audit Letter	October 2013		
Report on the Audit of Grant Claims	December 2013		

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Government and economic news

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Find out more

Spending review 2013

The Chancellor of the Exchequer announced the government spending plans for 2015-16 and cuts to individual departmental budgets to Parliament on 26 June 2013. This aligned with the announcement in the March 2013 budget that savings of £11.5bn were required.

The main points of the Spending Round are summarised below:

Overall

- ▶ The overall spending for the three years is confirmed as £745bn in 2015-16, £755bn in 2016-17 and £765bn in 2017-18.
- ▶ Savings from current spending of £11.5bn are required in the spending round for 2015-16, of which savings of £2.1bn are from core local government funding.
- ▶ Local authority core funding is reduced by 10 percent in 2015-16 in real terms.
- ▶ Transfer of £2bn from the NHS to local authorities for social care.

Council tax

- ▶ Further support to freeze council tax for 2014-15 and 2015-16, equivalent to one percent council tax increase for councils which freeze their council tax on the same lines as in 2013-14. Referendum limits of two percent in both 2014-15 and 2015-16 will be set.

Adult social care and health

- ▶ A £3.8bn pooled budget for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services. This includes £2bn a year through the NHS to join up local health and social care services.





Public service transformation

- ▶ £100mn investment into a council efficiency and transformation fund.
- ▶ A police innovation fund and provision of resources for the transformation of Fire and Rescue Services.
- ▶ Children's services and schools funding
- ▶ Schools funding and the pupil premium will be protected in real terms but the Education Services Grant, which pays for central services to schools, will be cut by 20 percent. This will be subject to a consultation in the autumn.

Troubled families

- ▶ A further £200mn will be invested into the Troubled Families programme to extend help to 400,000 families in 2015-16. In line with the existing programme, this will be subject to match funding from local authorities.

Local growth

- ▶ £2bn allocation to the creation of a Single Local Growth Fund, to be devolved to the Local Enterprise Partnerships (LEPs). The Fund is expected to be operational in April 2015 and sustained each year of the next Parliament. £700mn of this is to be funded from amounts previously allocated to local areas for transport or the New Homes Bonus

Fire and police

- ▶ Creation of an innovation fund of up to £50mn for police forces to work jointly with each other and with local authorities.
- ▶ A 7.5 percent reduction overall in Fire and Rescue authorities funding for 2015-16.
- ▶ Two specific fire and rescue authority funds were announced totaling £75mn, to be made through the local government settlement in order to encourage joint working.

The Local Government Association updated its Funding Outlook Report to incorporate the additional 10 percent real-terms cut to council funding for 2015-16. It estimates that the funding gap facing local government is widening by £2.1bn a year and will reach £14.4bn by 2020.

Infrastructure spending beyond 2015

Following the spending review announcement in June 2013, the Chief Secretary to the Treasury set out the next phase of the National Infrastructure Plan, and outlined the government's infrastructure investment priorities beyond 2015.

Key details highlighted:

- ▶ An increase in capital spending plans by £3bn a year, from 2015, equating to additional £18bn of investment over the next parliament
- ▶ Over £70bn of investment in transport
- ▶ Over £20bn in schools
- ▶ £10bn in science, housing and flood defences



Specific commitments include:

- ▶ Funding for HS2, a new nationwide rail network.
- ▶ Tripling the money spent on roads by 2020 to 2021 compared to 2013. This includes £6bn to help local authorities repair the local road network.
- ▶ Expanding Superfast Broadband provision so 95 percent of UK premises will have access to Superfast Broadband by 2017.

Action is being taken to provide the support needed to enable up to £100bn of private sector energy investment, including through the further roll-out and extension of the UK guarantees scheme.

A full update of the National Infrastructure Plan will be published at the time of the Autumn Statement 2013.

Local government pension scheme review

Local government minister Brandon Lewis has announced plans for a review of the Local Government Pension Scheme's investment regulations. The possibility of merging schemes is also to be examined.

The review will examine the rules, which set caps on the amount funds can invest in certain assets. In March, the minister confirmed that the limit covering infrastructure projects would be doubled to 30% of total assets.

The move comes as a new local government pension regulatory plan is being developed to take account of the reforms that the government has made to public sector schemes. This will come into effect in April 2014.

Economic outlook

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, announced in July 2013 that the UK recovery 'has finally got legs', with consumer spending and the housing market propping up GDP this year until the long awaited revival in exports and business investment kicks in next year.

According to the EY ITEM Club Summer Forecast, UK GDP will reach 1.1 percent this year, before accelerating to 2.2 percent in 2014 and 2.6 percent in 2015.

With consumer confidence returning and the Government's initiatives to stimulate the housing market bearing fruit, consumers are switching their attention back from saving to spending. From next year the consumer-led recovery will morph into much more balanced growth, as business investment and exports begin to rise more strongly.

The ITEM club had recently issued two special reports considering the impact of changes in the economic environment.



In May 2013, it published a report on inflation, identifying the following:

- ▶ **Outlook for inflation:** inflationary pressures will peak over the summer, and we will be unlikely to see inflation dip below 2.5 percent over the next four years.
- ▶ **Impacts on consumer spending:** ongoing relatively high inflation will continue to impact consumer spending, especially with unemployment unlikely to fall quickly. Average earnings growth will experience a pick-up from 2014, but is likely to take several years to return to more 'normal' rates of four percent or more.
- ▶ **Implications for monetary policy:** continuing high inflation could limit the Monetary Policy Committee's room for manoeuvre on interest rates, whilst also making it difficult to implement the Chancellor's proposal for more forward guidance.

In June 2013, the ITEM club published its report on consumer spending, identifying the following:

- ▶ **Consumer spending forecast in detail:** in 2012 consumer spending was still four percent below its 2008 peak. However, it is beginning to show signs of recovery and the momentum behind rising spending will build gradually over the next few years. This should see real consumer spending growth accelerating to just below five percent in 2014.
- ▶ **The pace of the recovery:** by 2015 it is expected that the level of spending will have returned to its pre-financial crisis peak, and then continue to grow faster than recent growth rates, although significantly slower than on previous trends.
- ▶ **Income and labour market factors:** although the strong rebound in real incomes seen in 2012 will not be sustained, and inflation is not expected to slow down from current rates, the generous increase in the income tax personal allowance will boost take-home pay over the next two years. These factors should mean that real incomes grow sufficiently to sustain the recovery in consumer spending.



Regulation news

Local audit and accountability bill

The Local Audit and Accountability Bill will put in place a new local audit and accountability framework for local public bodies in England. The Audit Commission currently appoints auditors to a range of local public bodies in England and sets out expected standards for auditors and oversees their work. It also compares data across the public sector to identify where services could be open to abuse and help organisations fight fraud. Under the bill, the scope of the audit will remain very similar to the current audit, and auditors will continue to be required to comply with a code of practice and have regard to guidance. In the new framework, these will be developed by the Comptroller and Auditor General of the National Audit Office.

The Bill continues with the auditor's role in bringing any appropriate concerns to the attention of the public through public interest reports which the body will be required to publish, along with their response. The Bill protects the rights of taxpayers to inspect the accounts of local bodies and raise any questions and objections with the independent auditor.

The Bill sets out a new framework which requires local bodies to appoint their own auditors. Local public bodies will have to appoint their own auditor at least once every five years. They will need to consult and take into account the advice of an independent

auditor panel. They will be required to publish information about the appointment of an auditor within 28 days of making the appointment.

Final amendments were made to the Bill during the third reading on 24 July. The Bill now goes to the House of Commons for its consideration.

OFSTED: consults on a single inspection framework for local authority children's social care services

In June 2013 OFSTED launched a consultation proposing a single framework for inspecting local authority child protection and services for looked after children, including those leaving or who have left care.

This replaces previous plans to implement separate inspections for child protection and services for children looked after. It proposes an evaluation of help, protection and care for children including the arrangements for local authority fostering and adoption services



Local government claims and returns 2011-12 certification report

In June 2013, the Audit Commission published its report on certification of local government 2011-12 claims and returns.

The 1,230 claims and returns reviewed, totaling £50.7bn, saw a fall in the value of amendments and number of qualification letters, due largely to fewer claims and returns requiring certification but the proportion of claims and returns that required amending or to be qualified rose.

Key messages from the report were:

- ▶ Amendments totaled £36.9mn, comprising increases in value of £13.6mn and decreases of £23.3mn.
- ▶ 355 qualification letters were issued on 29 percent of all claims and returns.
- ▶ 78 percent of housing and council tax subsidy claims received qualification letters.
- ▶ Many authorities could improve working papers and the supervision and review of claims and returns, to help reduce the number of errors and issues requiring attention.

Value for Money Profiles: council tax collection

In June 2013, the Audit Commission issued a briefing on council tax collection using data drawn from its Value for Money (VFM) profiles, to demonstrate their practical application and benefits.

The VFM Profiles are an online tool made available to anyone who has an interest in local public services including service users and residents. It enables comparison between councils by bringing together data about the costs, performance and activity of local councils and fire authorities, specifically to see:

- ▶ How an organisation is spending its resources, and how well services perform
- ▶ How the costs and performance of an organisation compare to others
- ▶ The latest planned budgets for councils
- ▶ Outlier reporting

This council tax briefing provides a national perspective on data for two specific indicators in relation to council tax. Key data identified:

- ▶ Council tax makes up more than £22bn of English council's income
- ▶ Councils spend £300mn (net) collecting council tax
- ▶ £605mn, of 2011-12 council tax due, remained uncollected by March 2012
- ▶ The total council tax arrears at 31 March 2012 was £2.355bn



Working together across the public sector

Funding transfer from NHS England to social care: 2013-14

In June 2013 NHS England announced that it will transfer £859mn to local authorities to allow them to support adult social care in 2013-14. The transfer of funding will be administered by NHS England's own area teams and not clinical commissioning groups (CCGs).

The funding must be used to support adult social care services in each local authority, which also has a health benefit. Health and wellbeing boards will be the forum for discussions between the NHS England area teams, CCGs and local authorities on how the funding should be spent and the outcomes expected from this investment.

Whole place community budgets

Following the Community Budget pilots, which tested 'whole-place' pooled spending on particular local services, the Secretary of State for Communities and Local Government announced that the Government is to support 18 selected councils across nine areas to develop pooled spending.

To aid the process, a 'multi-agency network' made up of experts from the public and private sectors will be set up to develop plans for a rolling programme, using lessons learnt from the four pilots. Councils are encouraged to submit expressions of interest to join the network.

In our April 2013 briefing, we provided details of the independent analysis from EY, which showed that more than £4bn of public money could be saved every year by radically shaking up the way public services are provided and paid for in England; cutting unnecessary waste, duplication and red tape. A year-long pilot of community budgets modelled to a national level by EY, shows that devolving more decisions to local areas would provide better services and save between £9.4bn and £20.6bn over five years across local and central government.

Neighbourhood-level Community Budgets: 'Our Place'

Following the success of the 12 Neighbourhood Community Budget Pilots, the Secretary of State for Communities and Local Government announced financial support of £4.3mn intended to enable at least 100 neighbourhoods to design and deliver local services that focus on local priorities and reduce costs.

The pilots ranged from inner cities and suburbs, to housing estates and small towns. They brought together local government, service providers, the voluntary sector, and business to help young people get work, support 'just coping' families, reduce anti-social behaviour and find new ways to give people with long term health conditions a better quality of life.

The expansion of the Our Place programme will also set up a network of champions drawn widely from the pilots and from all sectors, to provide support and advice.



Accounting, auditing and governance

National Fraud Initiative moving to Cabinet Office

The National Fraud Initiative (NFI) will be retained and transferred to the Cabinet Office when the Audit Commission closes in 2015. The National Fraud Initiative matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information that indicate that a fraud, an error or an overpayment may have taken place; signalling the need for review and potential investigation. The Audit Commission has reported that the outcomes from the most recent exercise in England include:

- ▶ The prevention and detection of £103mn pension overpayments
- ▶ £79mn council tax single person discounts incorrectly awarded
- ▶ £42mn housing benefit overpayments
- ▶ 164 employees identified as having no right to work in the UK
- ▶ 321 false applications removed from housing waiting lists
- ▶ 1,031 prosecutions, 921 of them for housing benefit fraud
- ▶ 32,633 blue badges and 52,635 concessionary travel passes cancelled

HRA Indebtedness

- ▶ The DCLG in May 2013 issued the **Limits on Indebtedness Determination 2012: Amending Determination 2013**. This requires a reduction in the HRA CFR where HRA non-RTB receipts after April 1 2013 are used to fund general fund capital expenditure, unless this is regeneration or affordable housing expenditure. Reduction in the HRA CFR would transfer the relevant part of HRA debt to the general fund, giving the latter increased interest and repayment costs.
- ▶ Under the same amending determination HRA 'Interest on notional cash balance' definition is now defined as:
- ▶ 'Interest on notional cash balance means the interest credited to the Housing Revenue Account on notional credit balances attributed to the Housing Revenue Account, the Housing Repairs Account, unapplied housing capital receipts and the Major Repairs Reserve.'



OFSTED: consults on a single inspection framework for local authority children's social care services

The consultation closed on 12 July 2013.

For more information, see:

<http://www.ofsted.gov.uk/resources/inspection-of-services-for-children-need-of-help-and-protection-children-looked-after-and-care-leave>

Local government claims and returns 2011-12 certification report

The full report can be found at:

[Local government claims and returns: The Audit Commission's report on certification work 2011/12 \(PDF document\)](#)

Value for Money Profiles: Council Tax Collection

The full report is available here: [Council tax collection – Using data from the Value for Money Profiles, June 2013 \(PDF document\)](#)

Link to VFM profile tool: [Value for Money Profiles](#).

Funding transfer from NHS England to social care: 2013-14

An annex to the announcement letter provides details of funding by local authority and NHS England area team:

<http://www.england.nhs.uk/wp-content/uploads/2013/07/annex-a-la-funding-split-at.pdf>

Whole place community budgets

Further details and a full list of authorities selected are available here:

<http://www.publicfinance.co.uk/news/2013/07/18-councils-selected-for-next-stage-community-budgets/>

Read more about the pilots at:

http://www.local.gov.uk/c/document_library/get_file?uuid=3e06dd05-6204-4ae8-9b41-81f516cb9a5b&groupId=10171



Neighbourhood-level Community Budgets: 'Our Place'

The DCLG press release on the announcement of the Our Place programme expansion:

<https://www.gov.uk/government/news/43-million-boost-to-put-communities-in-control>

The Our Place! summary report published by the DCLG highlighting the work of the 12 pilots is available here:

<http://mycommunityrights.org.uk/wp-content/uploads/2013/06/Our-Place-and-what-the-pilot-areas-achieved.pdf>

National Fraud Initiative has future moving to Cabinet Office

To find out more, go to:

<http://www.audit-commission.gov.uk/2013/07/audit-commissions-national-fraud-initiative-has-future-fighting-fraud-under-cabinet-office/>

HRA Indebtedness

The final five determinations for implementing self-financing for council housing can be found at:

<https://www.gov.uk/government/publications/the-housing-revenue-account-self-financing-determinations--2>

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Portsmouth City Council

Governance & Audit & Standards Committee

For the year ended 31 March 2013

Audit results report – ISA 260

26 September 2013

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Agenda Item 6



■ Kate Handy, Director
■ KHandy@uk.ey.com

■ Mark Justesen, Manager
■ MJustesen@uk.ey.com

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- ▶ Extent and purpose of our work
- ▶ Addressing audit risk
- ▶ Financial statements audit – issues & findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and audit fees

Executive Summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires me to report to 'those charged with governance' on the work I have carried out to discharge my statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2012/13 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial Statements

- ▶ As of 27 September 2013, I expect to issue an unqualified opinion. My audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

Value for Money

- ▶ I expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources .

Whole of Government Accounts

- ▶ I expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission by the 4 October deadline.

Audit Certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit practice have been discharged for the relevant audit year. I am unable to issue the certificate until I have completed my work on the whole of Government accounts.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

My audit was designed to:

- ▶ Express an opinion on the 2012/13 financial statements
- ▶ Report on any exception on the governance statement or other information included in the foreword
- ▶ As a component auditor, follow the group instructions and send to the National Audit Office my group assurance certificate, audit results report and auditor's report on the consolidation schedule
- ▶ Consider and report any matters that prevent me being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

This report contains my findings related to the areas of audit emphasis, my views on the Council's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than this specified parties.

Addressing audit risks

Significant Audit risks

I identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, I set out how we have gained audit assurance over those issues.

Specific Audit Risks identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
1. Paulsgrove primary school received academy status in January 2013 and the Council is also expecting Milton Cross school to achieve academy status in 12/13.	<ul style="list-style-type: none"> • Our approach focussed on ensuring the transfers, and any related impairments, were accounted for and disclosed correctly. 	<ul style="list-style-type: none"> • Paulsgrove Primary transfer and impairment were correctly accounted for. Milton Cross did not transfer in year.
2. The Council has expanded its use of pooled budgets to deliver more integrated adult health and social care services.	<ul style="list-style-type: none"> • Our approach focussed on: <ul style="list-style-type: none"> •Ensuring the Council accurately reflected its share of the income, expenditure, asset and liabilities of the pooled budgets. •Reviewing disclosures to ensure the above is correctly presented in the accounts. 	<ul style="list-style-type: none"> • The pooled budgets were accounted for correctly and values were agreed to the respective M12 pooled finance reports . There were minor disclosure amendments made as a result of the audit.
<p>Page 33</p> <p>The Council significantly improved the quality of its accounts and supporting working papers in 11/12. In 11/13 it is reviewing the format of accounts to reduce their size and improve readability.</p>	<ul style="list-style-type: none"> • Our approach focussed on: <ul style="list-style-type: none"> •Reviewing and monitoring management's closedown processes, in particular quality assurance arrangements, to ensure the accounts and supporting working papers were of an appropriate standard. •Providing a client assistance schedule of expected working papers and discussing progress with management •Reviewing any changes to the accounts format to ensure they comply with disclosure requirements. 	<ul style="list-style-type: none"> • Closedown processes appear to have worked successfully. The accounts were of a good standard but followed the format used in previous years. Reasonable quality working papers were prepared ,based on our client assistance schedule, and queries were generally turned around promptly - although there were some exceptions to this. There were a number of disclosure adjustments made as a result of the audit.
<p>4. Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p>	<ul style="list-style-type: none"> •Based on the requirements of auditing standards our approach focussed on: <ul style="list-style-type: none"> •Identifying fraud risks during the planning stages. •Inquiry of management about risks of fraud and the controls put in place to address those risks. •Understanding the oversight given by those charged with governance of management's processes. •Consideration of the effectiveness of management's controls designed to address the risk of fraud. •Determining an appropriate strategy to address those identified risks of fraud. This included review of areas where significant judgement is required, such as provisions and review of transactions before and after the year end to ensure they are accounted for in the correct financial period. 	<ul style="list-style-type: none"> • We did not identify a significant fraud risk in our planning , and responses from the Chair of the Governance and Audit and Standards Committee ,management and internal audit set out a reasonable control framework. •Our testing strategy focussed on areas with the greatest opportunities for fraud or error: (journal testing, manual debtors and creditors, cut-off) and high levels of judgement (provisions, PFI and valuation of assets). Whilst we identified a number of minor errors, we were able to conclude we have sufficient assurance that the financial statements are free of material misstatements caused by error or fraud.

Financial Statements audit

Issues and errors arising from the audit

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Progress of our audit

- ▶ The following areas of my work programme remain to be completed. I will provide an update of progress at the Audit Committee meeting:
 - ▶ Receipt of a Letter of Representation
 - ▶ Some discrete tests within our debtor, creditor, and income and expenditure programme
 - ▶ Supporting evidence for disclosures in the capital commitments note
 - ▶ Whole of government accounts
- ▶ Subject to the satisfactory resolution of the above items, I propose to issue an unqualified audit report on the financial statements.

Uncorrected Errors

- I have not identified any errors within the draft financial statements that management have chosen not to adjust.
- However, members should be aware testing is ongoing at the time of reporting

Corrected Errors

■ My audit identified a number of errors that my team highlighted to management for amendment. All of these have been adjusted during the course of our work and in the main related to technical disclosure matters.

■ I do not consider any of these to be significant and therefore I have not provided further details of these amendments.

Other Matters

■ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- Qualitative aspects of your accounting practices;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I only wish to highlight to you that the Council needs to prepare Harbour Accounts in companies act format for 2012/13, and then submit them to the Secretary of State once audited.

Findings and issues

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

I have reviewed the Annual Governance Statement and can confirm that:

- ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Request for written representations

I have requested a management representation letter to gain management's confirmation in relation to a number of matters, for which I do not currently have sufficient audit evidence. In addition to the standard representations, I have requested the following specific representations:

- ▶ Comparative information
 - ▶ Inclusion of LEP exceptional
- ▶ Use of work of expert
 - ▶ Significance of valuations by Council's valuers

Whole of Government Accounts

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

I am currently undertaking my work in this area and will report any matters that arise to the Audit Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out my responsibility to satisfy myself that Portsmouth City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, I have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

"Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future"

I also identified 2 risks in relation to this criteria:

- ▶ The implications of the changes to arrangements for council tax support and business rates in 2013/14
- ▶ Robustness of medium term financial planning in light of the need to identify and deliver significant savings

- ▶ The Council managed its financial performance well during 2012/13; delivering a surplus on the general fund of £0.1m (including schools) that represents a £5.4m improvement on the Council's budget. This has effectively financed part of the capital programme and the planned increase in the Medium Term Resource Strategy Reserve without reducing general fund reserves, giving the Council a sound financial platform as it plans for the impact of the 2013 Comprehensive Spending Review announcement.
- ▶ It has identified savings, efficiencies and additional income of £15m in 2013/14, with a full year effect of £17.5m, but is presently having to review budgets in light of unplanned and increasing demand for children's and adult social services. This demonstrates well the challenge the Council faces over the medium-term, as statutory responsibilities remain unchanged but central funding is reduced.
- ▶ The Council has a clear view of the challenge it faces over the medium term, with budget reductions of £30m needed in 2014/15 to 2016/17. However, there is no documented medium-term financial strategy setting out how it plans to deliver this, and the Council effectively only sets a one year budget aligned to the local election cycle.
- ▶ There are informal arrangements that ensure the Council considers the medium term in setting budgets but I endorse a recent LGA peer review's conclusion that "a longer-term view is essential for the Council to deliver its ambitions, to set smarter targets to plan for financial pressures and the consequences and impact of service changes in one service on another and the city as a whole." As the Council goes through a phase of downsizing, it needs to adopt a strategic approach that gets to a planned end-point rather than implementing incremental and reactive cuts to services.
- ▶ Therefore, while you have arrangements to secure financial resilience for the foreseeable future, you need to take action to secure financial resilience over the medium to longer term.

Arrangements to secure economy, efficiency and effectiveness

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”

➤ I also identified 4 risks in relation to this criteria:

- ▶ Refresh of the Council’s strategic direction
- ▶ Redevelopment of performance management arrangements
- ▶ Review of risk management arrangements
- ▶ The transfer of public health responsibilities to the Council

- Page 39
- ▶ The Council has been fundamentally reviewing both its corporate priorities and how the business is managed over the last year, and this development process will continue through 2013/14. The Council was keen to develop a bespoke local alternative to a prescriptive regulator-led indicator-led national system but has found this to be a slow and challenging process. We believe the Council’s arrangements suffice to meet the criteria but that this is important developmental work needed to prepare the Council for the changing world it operates in.
 - ▶ Defining what makes Portsmouth different from other unitary councils and setting meaningful local development priorities that cascade through business planning processes, has not been straightforward and has involved extensive reflection and discussion. The intention to develop a series of narratives setting out what it means to “work together to shape the great water-front city” is still work in progress, but the work has led to the development of a ‘corporate plan on a page’ that sets a framework for the future transformation of the city and the Council itself. This is an important evolution that needs further development in the run up to the 2014/15 budget-setting process, to ensure there is sufficient clarity and linkage to financial and service planning.
 - ▶ The above journey has complicated the development of a new performance management framework. Services were given the license to develop their business plans in their own way, setting out how they would contribute to the ‘great waterfront city’ and what performance indicators should be used to measure their progress. This bottom–up approach has served to flush out a range of cultural issues and concerns that have prolonged the process but allowed a consensus to build around the future approach. Nonetheless it is a priority that the Council define a core suite of indicators that allow it to track how it is delivering against the ‘corporate plan on a page’ and that similar suites are developed that enable proper performance management of services.
 - ▶ Corporate risk management processes were considered onerous and had stagnated, so the Council has revisited and refreshed the framework. The design appears appropriate but the operational detail is still being developed and needs to be embedded before 2014/15.
 - ▶ The Council has successfully incorporated the public health team and its responsibilities into the wider business, and rationalised its health improvement services in the process. The challenge the Council faces is to balance the achievement of longer-term public health outcomes against the financial climate the Council is operating within. There will be a temptation to seek to incorporate areas of existing Council spend into the grant ring-fence but this must be driven by outcomes and not expedience, as it involves the future health legacy of the population.

Independence & Audit Fees

Independence

- ▶ I confirm there are no changes in my assessment of independence since my confirmation in our Audit Plan dated 14 March 2013.
- ▶ I complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and in my professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ I confirm that I am not aware of any relationships that may affect the independence and objectivity of the firm that I am required by auditing and ethical standards to report to you.
- ▶ I consider that my independence in this context is a matter that should be reviewed by both you and myself. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning my independence, I will be pleased to do so at the forthcoming meeting of the Governance and Audit and Standards Committee on 26 September 2013.

- ▶ I confirm that I have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. My communication plan to meet these requirements was set out in the Audit Plan.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	
Total Audit Fee – Code work	199,980	198,180	Fee increased for elector work. Harbour audit will lead to further fees.
Certification of claims and returns	32,875	26,500	2 new TRA11 claims in 12/13
Non-Audit work	0	0	

- ▶ My actual fee is slightly above the agreed fee, because of work on elector issues, which assumes satisfactory clearance of the outstanding audit work. The grants fee will be higher because of 2 new claims, and the Harbour audit will incur an additional fee.
- ▶ I confirm that I have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

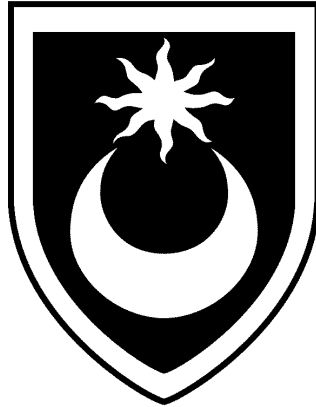
This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



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Agenda Item 7



Portsmouth
CITY COUNCIL

STATEMENT OF ACCOUNTS 2012/13

.....

.....

Chris Ward
Head of Finance & S151 Officer

Date

.....

.....

Councillor Terry Hall
**Chair of the Governance and
Audit and Standards Committee**

Date

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EXPLANATORY FOREWORD
Financial Year Ended 31st March 2013

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 relevant financial information on the City Council and its investments
- 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 2012/13 – Commentary

The Financial Statements comprise the following:

- 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)

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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 2013.

Changes in Accounting Standards or Accounting Policies

There have been no significant changes in accounting standards between 2011/12 and 2012/13.

The Council has changed its Accounting Policy in relation to the Solent Local Enterprise Partnership (LEP) for which it acts as the Accountable Body. The income, expenditure, assets and liabilities are now fully incorporated within the City Council's accounts as opposed to accounting for the LEP as though the Council were simply acting as an agent. The principal effects were to increase Short Term Creditors (£1.4m) and Capital Grants Received in Advance (16.7m) and to reduce Other Long Term Liabilities (18.1m). The comparator year (2011/12) presented in these accounts has been restated to ensure that a like for like comparison with 2012/13 can be made. The reasons for this change in accounting policy and a detailed explanation of its effects are provided in Note 6.

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 in the year 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 shows the movements in the net worth of the Council in the year. The Movement in Reserves Statement (see next section) shows how the change in net worth is reflected between usable and unusable reserves.

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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 £566m gross but after deducting housing rents, specific grants and other income resulted in net spending on specific services of £175m. This represents a significant reduction in net expenditure compared with 2011/12 of £98m or 36%. This largely relates to an exceptional item relating to a “one off” payment to the Government of £88.6m in the previous year in order to release the Council from the Housing Revenue Account subsidy arrangements which involved annual payments to Government (these annual payments amounted to £4.9m in 2010/11 and 4.3m in 2011/12).

Excluding the exceptional item, the reduction in the Net Cost of Services would have been £9.7m or 5.3%. This overall reduction generally reflects the Council’s need to manage both its demand and inflationary pressures coupled with Central Government funding reductions by increasing income (particularly for Adult Social Care Services and Council Housing Rents) and reducing costs and services.

- Other Operating Expenditure – Other operating expenditure is unrelated to direct revenue expenditure on services. Other net operating expenditure added net expenditure of £12.0m. The main items being the loss from sales of non current assets of £11.5m.
- 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 £26.4m with the main contributors being the cost of servicing the Council’s £373.1m debt portfolio amounting to £15.7m but offset by income from investments of £4.1m. A further £8.4m was added relating to the financing and investment activities of Pension Schemes 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 £219m of funding from these sources of which just under 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 surplus of £5.8m in providing services to the public. This compares to a deficit of

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£83.2m in 2011/12, a change of £89m. The main reasons for the change being:

- A £98m reduction in the net cost of services largely relating to the exceptional HRA Self Financing item which was a “one off” item in the previous year which enabled the City Council to buy itself out of future payments to Government through the Housing Revenue Account Subsidy System
- A £15m swing on disposals of assets (i.e. the actual sale price of the asset less its Balance Sheet value) from a gain in the previous year to a loss on disposals of fixed assets in 2012/13
- An increase of £5m in Financing and Investment activities, the majority of which relates to additional costs of borrowing from the borrowing undertaken to finance the “HRA Self Financing Buy Out”.
- An increase in income from Taxation and Non Specific Grants amounting to £10.3m arising mainly from “one-off” grant funding for the Capital schemes progressing at Tipner Junction and Northern Road Bridge
- 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 & Expenditure for the year was a deficit of £17.4m compared with an overall deficit of £142.2m in 2011/12.

Whilst the cost of the Provision of Services reduced over the period by £89m, the overall deficit on the Comprehensive Income & Expenditure Statement reduced by £125m. The primary reason for this was the non-recurrence of the “HRA Self Financing Buy Out” and a smaller loss in the value of the assets and liabilities of the Local Government Pension Scheme compared to the previous year.

The overall deficit of £17.4m 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.

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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. Note 26 shows the Council's expenditure and income by portfolio.

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 £17m. Within this, £23m relates to asset revaluations (pensions and other assets) and therefore features as a charge against non useable reserves. The other £6m surplus relating to useable reserves, is then adjusted to add back £6m net income relating to adjustments required by statute in deriving the sums that can be charged to Council Tax Payers and Rent Payers. The main elements of the £6m net income comprise expenditure added back relating mainly to Capital Financing, Depreciation & Impairment and Pensions adjustments as follows:

- General Fund Balance – (£15)m
- Housing Revenue Account Balance - £11m
- Major Repairs Reserve – (£1)m
- Other – (£1)m

As a consequence of all of the adjustments required by statute and other transfers to earmarked reserves, the Council's main General Fund Balance increased in the year by £0.1m, 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:

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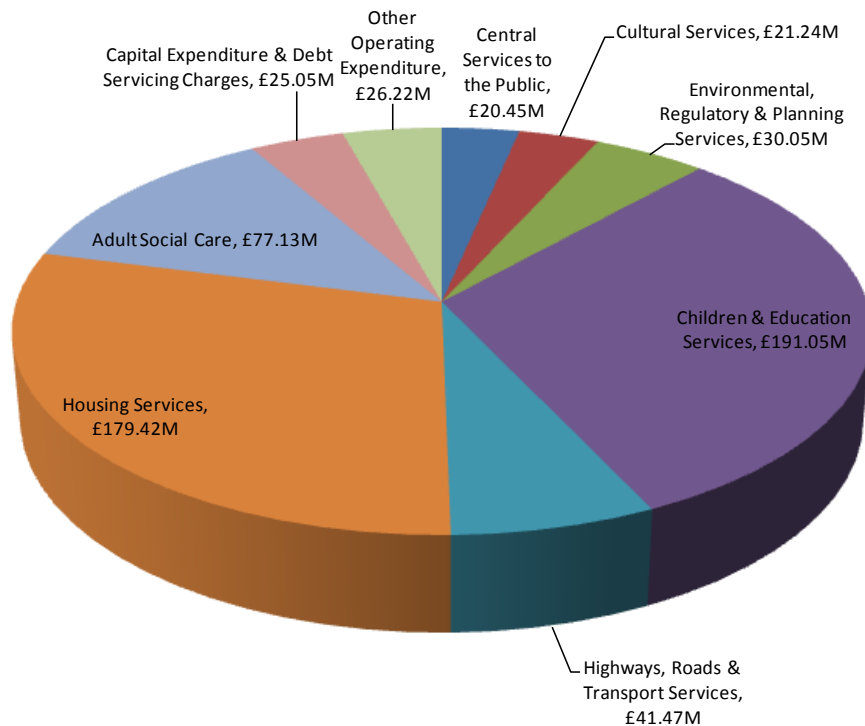
Description	Schools (General Fund) £m	Rest of City Council (General Fund) £m	Total General Fund Balance £m
Balance brought forward as at 1st April 2012	(8.6)	(24.1)	(32.7)
Contribution (to) / from Reserves	(0.6)	0.5	(0.1)
Balance carried forward as at 31st March 2013	(9.2)	(23.6)	(32.8)

NB. Brackets represent surpluses

The total surplus (or contribution to reserves) of the City Council amounted to £0.1m. This however, consists of a contribution to School's Reserves of £0.6m and a withdrawal from General Reserves for the rest of the City Council of £0.5m.

To demonstrate how the £0.5m withdrawal from General Reserves of the Rest of the City Council arose in 2012/13, 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.

City Council Gross Revenue Expenditure 2012/13
£612.08 Million

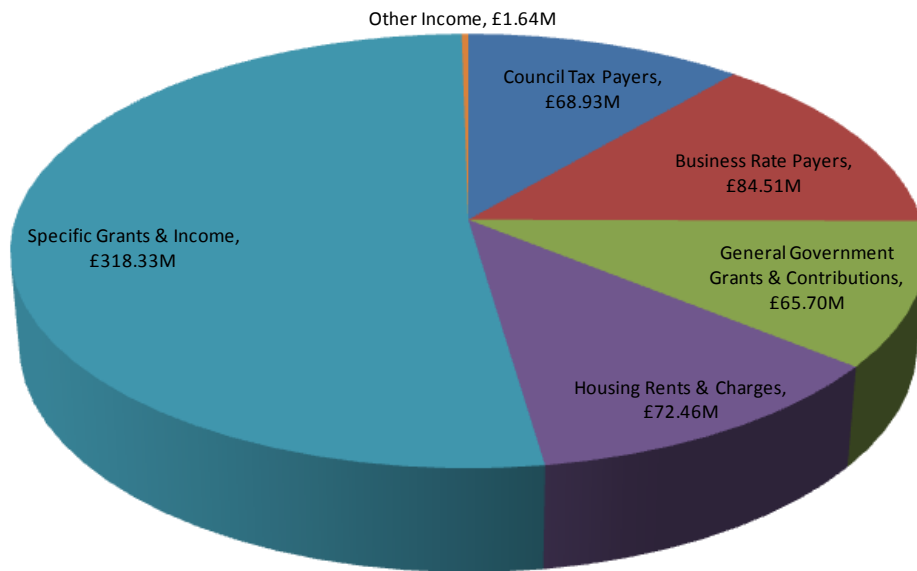


Please note that some expenditure types have been amalgamated for ease of presentation and understanding

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The gross expenditure of £612.1m financed by £611.6m of income as described below with the deficit of £0.5m being the withdrawal from General Fund Reserves. Excluding schools, this surplus represents the extent to which the City Council's in year expenditure has exceeded its in year income.

**City Council Sources of Finance 2012/13
£611.57 Million**



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

The City Council's Revised Budget for 2012/13 (excluding schools) estimated that the City Council would make a withdrawal from Reserves of £5.8m. This level of withdrawal was consciously planned and largely reflects a transfer to the Council's Medium Term Resource Strategy Reserve (i.e. its Spend to Save reserve) of £7.4m in order to provide a vehicle for funding savings initiatives over the medium term. The ultimate aim is for in-year expenditure to match in-year income. The actual withdrawal from General Reserves of £0.5m represents a net improvement in the Council's position compared to its budget of £5.3m. The most significant reasons for the improvement in the forecast level of General Reserves are as follows:

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Main Underspendings against Budget:

- Unused general contingency of £1.5m
- Higher than anticipated Grants from Government of £0.9m mainly relating to a re-imbusement of funding withdrawn for Academies
- Release of sums set aside for anticipated non recovery of housing renovation loans to the private sector in the sum of £0.8m. Security for loans has now been provided by placing registered charges on properties allowing the provision for non-recovery to be released
- In Children & Education Services - £0.8m savings were realised from holding vacancies and reduced project spend in the Early Years Service (£0.2m), holding vacancies and reduced contracted services in the Youth Service (£0.2m) plus other savings in Management, Support and Strategic Commissioning (£0.4m).
- Savings within Adult Social Care amounting to £0.4m mainly arising from additional client contributions from in house residential units (£0.2m) plus reduced clients and savings in staff and client activities in day care services (£0.2m)
- Improved trading results from the Port of £0.5m
- Non use of the specific contingency held to cover potential cash and interest rate movements in the Council's Treasury Management activities amounting to £0.5m

Main Overspendings against Budget:

- In Education & Children's Services – £0.7m arising from increased numbers of Looked After Children and therefore a higher than anticipated use of Independent Foster Agencies for their placement
- In Adult Social Care – £0.4m mainly arising in domiciliary care services due to increased demand.

Given that the City Council currently has a forecast budget deficit of £26m (or £52.5m on a cumulative basis) over the next 3 years, this overall improvement in the future forecast of General Fund Reserves of £5.3m can now go some way towards "smoothing out" the savings required to eliminate the deficit. Alternatively, this improvement of £5.3m could be used to provide "up front" investment costs associated with "Spend to Save" schemes or "Invest to Save"

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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:

- 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 31st March 2013. 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)

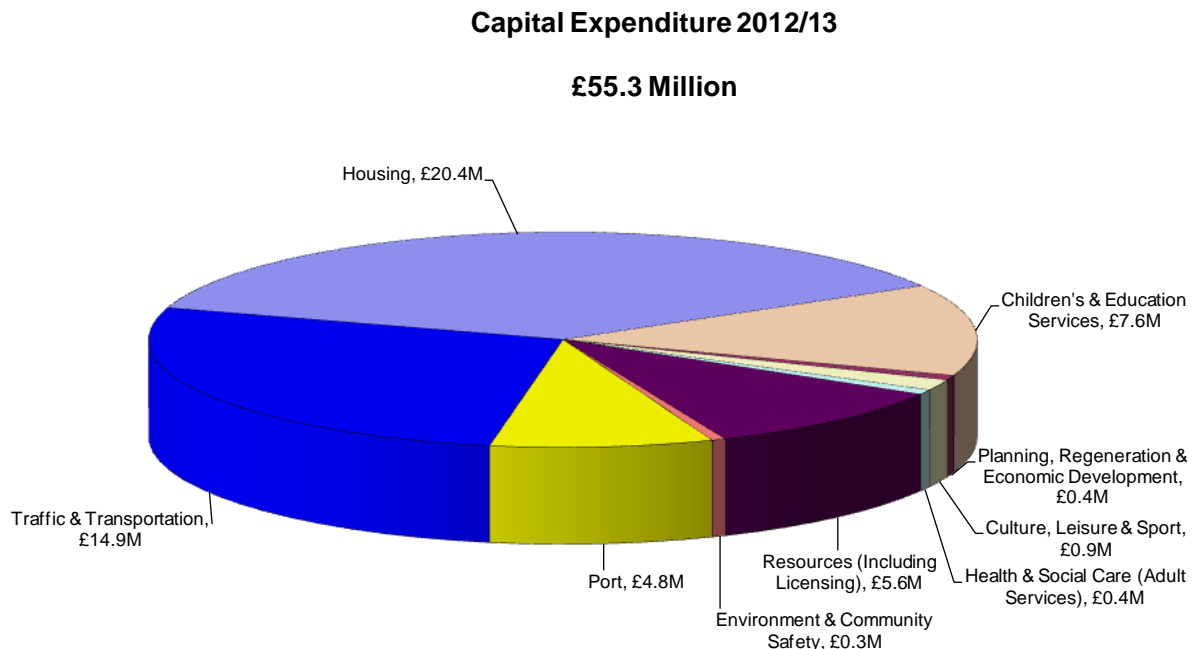
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Non Current Assets

On the 31 March 2013, the City Council had Non Current Assets in operation and assets under construction in the form of Property, Plant & Equipment valued at just under £1billion. In addition to this, the City Council had Heritage Assets, Intangible Assets (such as software licenses, other licenses, trademarks and patents), Investment Properties and other assets valued at £152m. This equates to a total value of Non Current Assets of £1.1billion and is £38m more than the previous year.

The City Council made £55m of Capital Investment within the City in 2012/13 from its Capital Programme.

This expenditure was made in the following areas:



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	5.4
External Grants and Contributions	27.5
Revenue & Reserves	16.8
Long Term Borrowing & Other Adjustments	5.6
Total	55.3

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The Council has £68m available to fund future capital expenditure consisting of the General Fund Earmarked Reserve for Capital Purposes £15m, the Housing Revenue Account Capital Reserve £17m, the Major Repairs Reserve £10m, the Capital Receipts Reserve £2m and Capital Grants Unapplied of £24m.

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 - £21m
- Flood defence works - £54m
- Investment in, and maintenance of, Council Housing - £152m
- Private Sector Housing (Affordable Housing and Housing Standards) - £14m
- Tipner Motorway Junction and Park & Ride Facility - £22m
- Tipner Land Remediation & Sea Defences - £10m
- New Road to facilitate the Northern Quarter City Centre Re-development - £15m
- Horsea Island Bridge Link - £35m
- Development of an Employment site at Dunsbury Hill Farm - £8m

Long Term Liabilities

The City Council's Long Term liabilities have increased by £12m over the financial year to £820m. The change primarily relates to an increase in the deficit on the Council's pension liabilities of £29m as the growth in pension fund assets has not kept pace with the growth in benefits earned by members. Other long term liabilities have reduced including a reduction in long term borrowing of £3.4m and fewer Capital Grants held where the City Council has yet to make the associated Capital Expenditure.

Current Assets

In terms of current assets, the City Council was owed £43.9m in debt excluding monies owed from Government (which is up by £0.6m 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 1.4%. This increase illustrates a mixed picture where some of the key categories of debt due to the Council have fallen, Housing Rents in particular. Other categories such as Sundry Debt have increased markedly.

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The main reasons for the changes relate to the following:

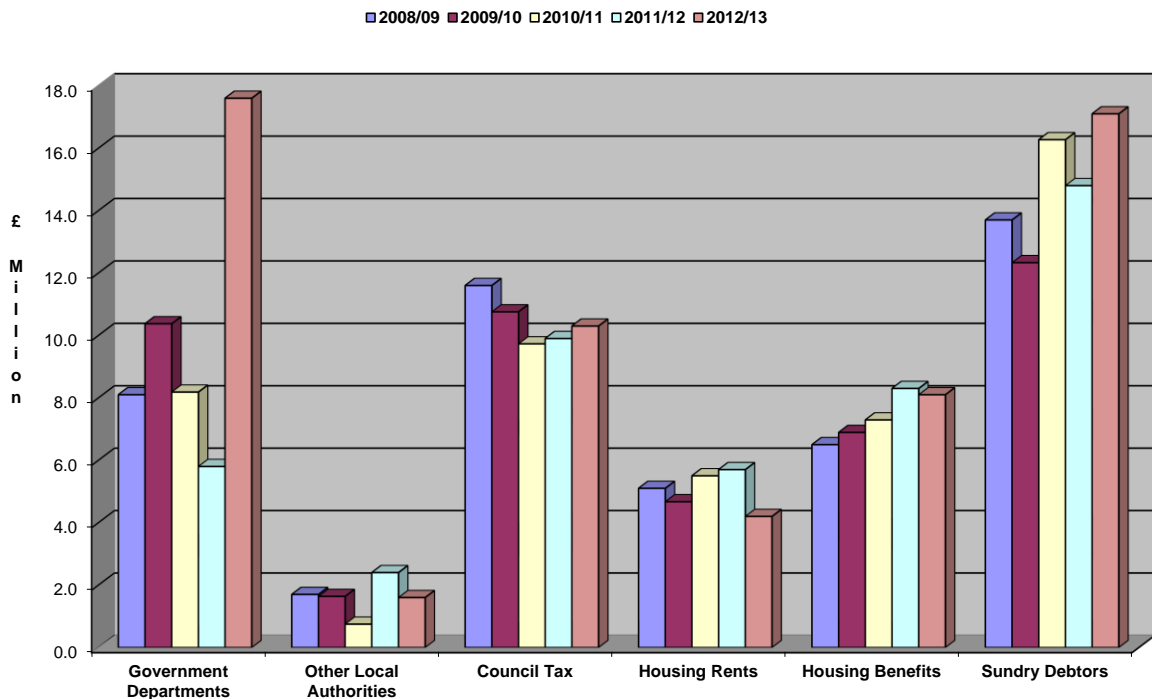
- Other Local Authorities – the sums owed have reduced by £0.9m however, this debt is fairly low risk and is likely to be paid.
- Council Tax – the sums owed by Council Taxpayers has increased slightly by 2.8% and now stands at £10.3m. The in-year collection of Council Tax however, remained the same at 95.0% in 2012/13.

The City Council wrote-off just £563,000 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 (or 2.8%) increase in debt during the year.

- Housing Rents owed reduced from £5.7m to £4.2m, a reduction of 26.1%
- Housing Benefit debt (recovery of overpayments) reduced by £0.2m during the year from £8.3m to £8.1m
- Sundry Debt including capital receipts owed increased during 2012/13 from £14.8m to £17.1m over the previous year, much of this debt however remains within credit terms.

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

Analysis of Short Term Debt - 2008/09 to 2012/13



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Other current assets included £181m of short-term investments (i.e. temporary surplus cash balances held on the money markets) up from £167m the year before. Whilst short-term investments held on the money markets amounted to £181m, a further £28m was held in instant access Money Market Funds and therefore classified as Cash and Cash Equivalents

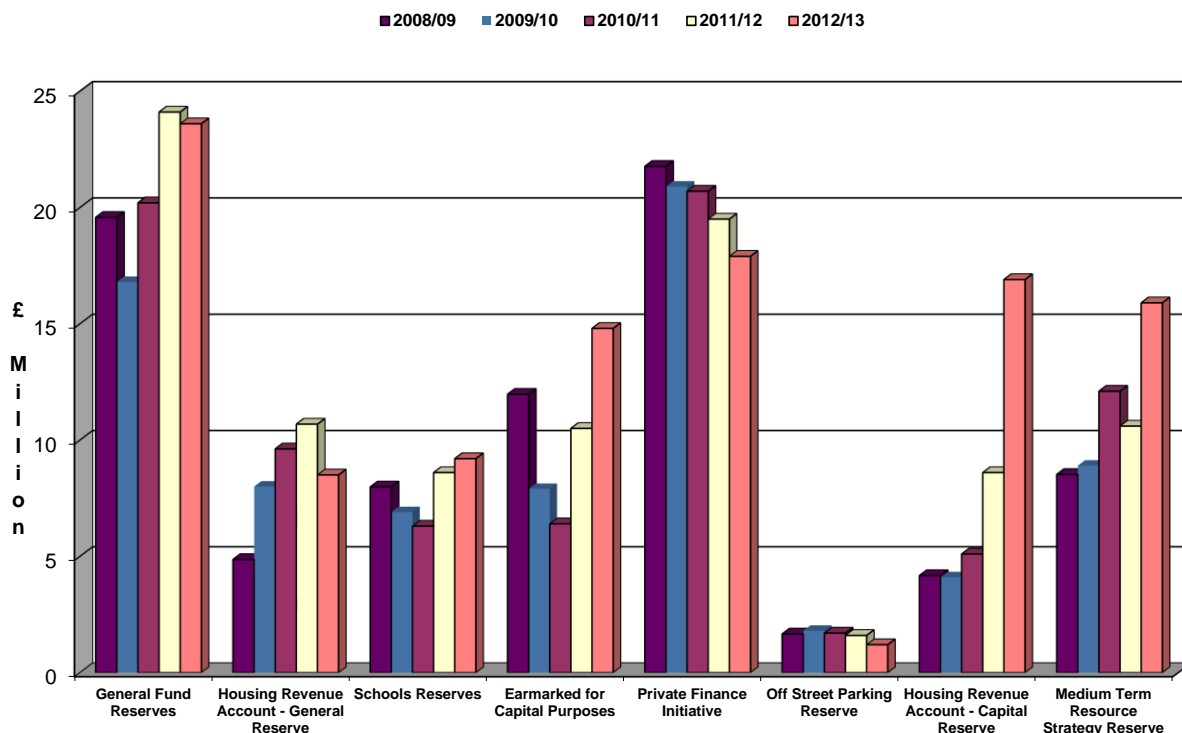
Current Liabilities

On the 31 March 2013, the City Council itself, owed suppliers £74m for goods and services received in 2012/13 of which £48m 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 2012/13 stood at 88% 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 2013 are illustrated below including a comparison of how they have moved over the last 5 years.

Balances of Main Distributable Reserves - £ Million



General Fund Reserves (excluding Schools) – Balance £23.6m

At the 31st March 2013, the Council's General Fund Reserves amounted to £23.6m (down from £24.1m in 2011/12). The forecast for General Reserves (excluding schools), however is higher. It was planned to make a planned

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withdrawal of £5.8m from Reserves compared with an actual withdrawal of £0.5m representing a net improvement of £5.3m.

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 £6.0m for future years; any excess over and above this is used to fund Council Services.

Housing Revenue Account General Reserve - Balance £8.5m

The HRA General Reserve reduced by £2.2m in the year from £10.7m in 2011/12 to £8.5m in 2012/13. 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 £9.2m

These are revenue reserves accumulated from previous years from underspends against their devolved budgets. The increase of £0.6m in 2012/13 reflects schools spending less in 2012/13 than their annual budget allocation.

Earmarked for Capital Purposes – Balance £14.8m

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 £4.3m mainly arising from the need to finance capital expenditure in future years.

Private Finance Initiative – Balance £17.9m

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 £1.6m reflecting the net deficit between the Unitary Payments made to the PFI contractor and the PFI Grant, interest and contributions accruing to the reserve.

HRA Capital Reserve – Balance £16.9m

The reserve supports future spending on capital projects relating to Council Housing. In the year, the reserve increased by £8.2m 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.

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Medium Term Resource Strategy Reserve – £15.9m

This reserve was created 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 which give rise to on-going savings. The reserve has increased over the year by £5.2m mainly due to Council decisions to make contributions of £7.4m arising from the overall City Council underspend for the financial year 2011/12 and forecast underspends in 2012/13. The current balance of £15.9m is largely 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 £17m, the main movements being attributable to a deterioration of £29m in Pension Scheme deficits.

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 reduced by £47m largely due to the significant decrease in investments held in money market funds on the Balance Sheet date compared with the previous year.

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.

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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 those pension schemes on the employees' behalf. Any unfunded liabilities on the pension fund are represented in the balance sheet and amount to £351m at 31 March 2013 (i.e. a Pension Fund deficit)

Local Authority Accounts are based on International Financial Reporting Standards. This is a suite of accounting standards that are used across the world.

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 deficit in the sum of £419,000 and when the Budget was revised in February 2013 it was anticipated that the fund would be in deficit in the sum of £200,000. The Budget for 2013/14 was prepared on this basis i.e. that there would be a repayment of this deficit of £200,000 during 2013/14.

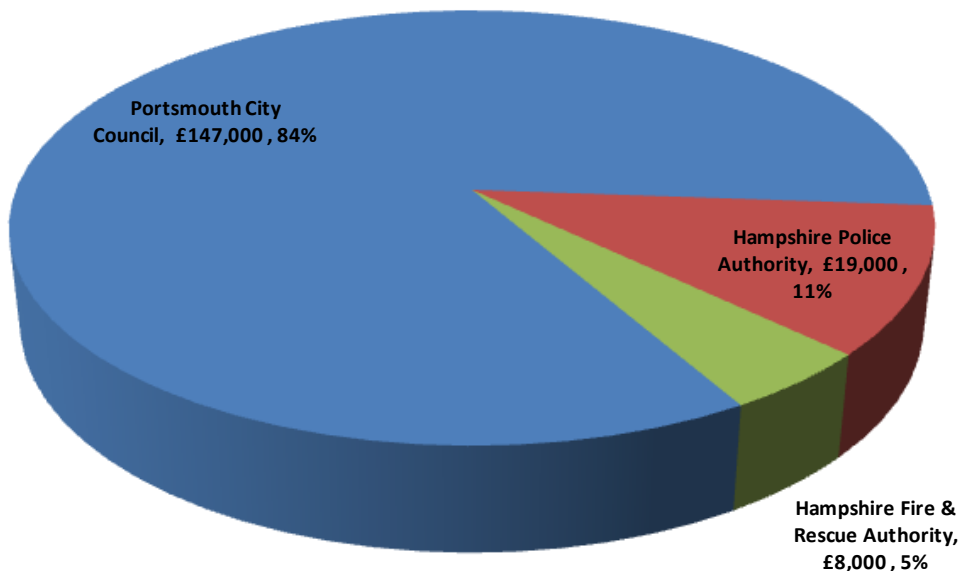
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The actual deficit on the Collection Fund at the end of 2012/13 was just £27,000 i.e. £173,000 lower than anticipated. Since the Budget and Council Tax for 2013/14 was set on the basis of a £200,000 deficit, the improvement of £173,000 from the estimate can be distributed through the 2014/15 Budget Process. An estimate of the Collection Fund balance as at the end of 2013/14 will be revised in the light of this improvement and all other circumstances just prior to setting the Council Tax and Budget for the next financial year. Any estimated surplus at that time will then be distributed to constituent Authorities during the next financial year.

The primary cause of the overall fund improvement is slightly higher than anticipated Council Tax income receivable than estimated.

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 improvement of £173,000 remain, this would be shared as follows:

**2012/13 Unplanned Reduction in Collection Fund Deficit
£173,000**



Any unplanned surplus that relates to the City Council (i.e. £147,000) will be transferred to General Fund Reserves in 2014/15 and planned into future financial forecasts accordingly.

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In 2012/13 all national non-domestic rates were paid into a national pool administered by the Government. From 1 April 2013 50% of business rates will be retained by the City Council subject to caps and floors.

When the new arrangements for the retention of business rates come into effect on 1 April 2013, local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over (to Central Government) in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the authorities, but would have been transferred to the Department for Communities and Local Government.

The Council's share of the total estimated reduction in National Non Domestic Rates income attributable to appeals as at 1 April 2013 is estimated as £7.3m over the period of 2013/14 to 2017/18. Of this figure, £6.0m represents pre 1 April 2013 reductions and £1.3m are estimated future appeals. Under regulations, the Council is permitted to spread the financial effect of pre 1 April 2013 reductions over five years.

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.

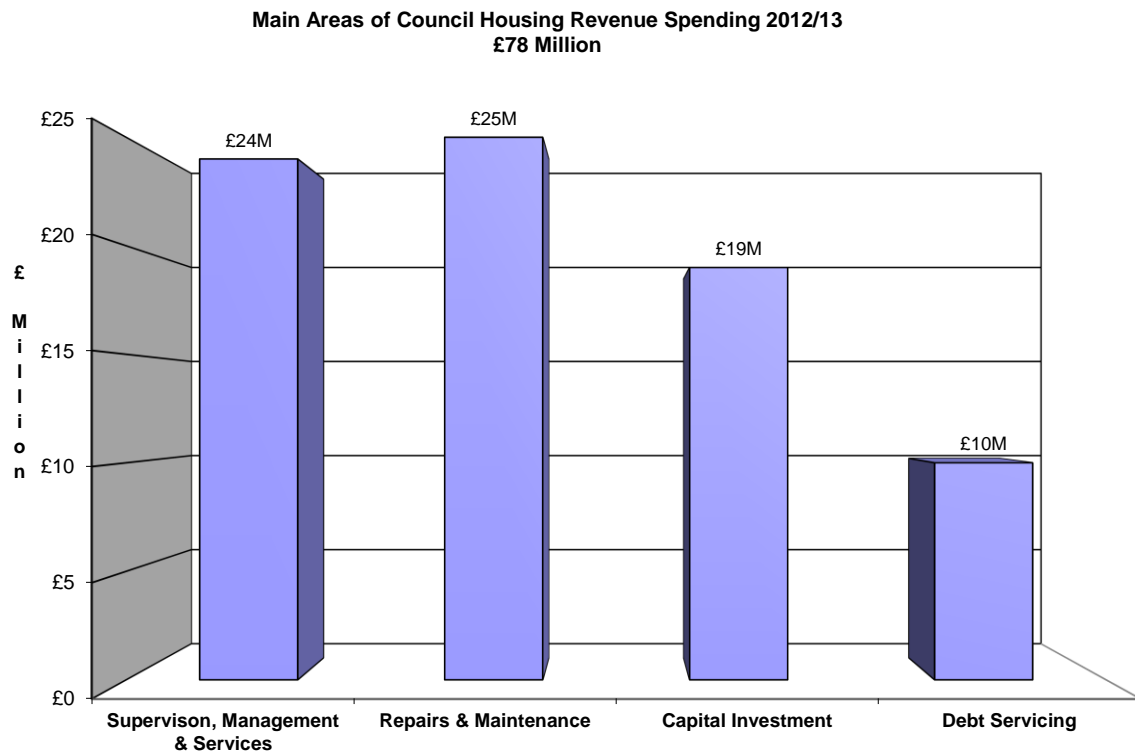
The Housing Revenue Account has been prepared on the same basis as the Comprehensive Income & Expenditure Statement, in that it also presents a surplus / deficit that is comparable to the private sector. Again, this is not the entirety of the entries required to determine the overall impact on the HRA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

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Overall the HRA made a surplus of £11.5m in the year 2012/13. This represents a major reduction in cost compared with 2011/12 (£82.3m deficit) of £93.8m. As mirrored in the overall Comprehensive Income & Expenditure Statement for the City Council, this improvement has mainly been caused by the exceptional payment to the Government for the release from the HRA Subsidy system of £88.6m in the previous year which was a “one off” payment for that year only. Whilst the HRA made a surplus, 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. Equally, the HRA is able to fund Capital Expenditure directly. The combination of all of those adjustments allowed under statute turn the £11.5m surplus into a £0.7m surplus.

After a contribution of £2.9m to the HRA Capital Reserve, the HRA made a withdrawal from the the HRA Reserve of £2.2m. This £2.2m deterioration in the HRA Reserve represents the excess of expenditure made in 2012/13 over and above total income.

The main items of Council Housing expenditure for 2012/13 are set out below.



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The Revised Budget for 2012/13 approved in February 2013 assumed that the HRA would make a withdrawal from the HRA General Balance of £0.5m. This was deliberately planned in order to provide funds to support expenditure in the current year and provide a cushion whilst expenditure is managed down over time to a point in future years when in-year expenditure broadly meets in-year income. Compared with the actual withdrawal from the HRA Reserve of £2.2m, this represents a deterioration in the overall anticipated financial position on the HRA of £1.7m.

The HRA Reserve now stands at £8.5m compared with £10.7m at 31 March 2012 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. Current estimates indicate that the HRA will need to sustain deficits over the short term but then even out over the medium term.

Conclusion

In 2012/13 the Council has experienced a reduction in its General Reserves (excluding schools) of £0.5m and this represents the extent to which the City Council's in-year expenditure has exceeded its in-year income. There was a budgeted withdrawal from General Reserves of £5.8m, therefore this reduced withdrawal from General Reserves of £0.5m represents an overall underspend against the budget of £5.3m. The £5.3m improvement arose from underspendings, in the main, arising from the non-use of contingencies, additional government grants and releases of sums that had previously been set aside for anticipated non recovery of loans.

The deficit on the Collection Fund of £27,000 is lower than the anticipated deficit of £200,000 reflected within the Budget. The City Council's share of the £173,000 budget surplus is £147,000. Combining this improvement in the Budget with a £5.3m underspend has resulted in a net improvement in the Council's overall medium term financial position of £5.4m 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 deficit of £2.2m which was £1.7m 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

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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 safeguard 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 the United Kingdom ("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 2013.

Signed

Chris Ward
Head of Finance and section 151 Officer
24th September 2013.

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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
Balance at 31 March 2011 carried forward	(26,519)	(53,737)	(9,619)	(15,017)	(1,028)	(18,862)	(124,782)	(508,807)	(633,589)
Movement in reserves during 2011/12									
Deficit 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	58,972	58,972
Total Comprehensive Expenditure and Income	922	0	82,290	0	0	0	83,212	58,972	142,184
Adjustments between accounting basis & funding basis under regulations	(11,035)	0	(86,855)	5,680	(2,008)	(2,630)	(96,848)	96,848	0
Net Increase / Decrease before Transfers to Earmarked Reserves	(10,113)	0	(4,565)	5,680	(2,008)	(2,630)	(13,636)	155,820	142,184
Transfers to / from Earmarked Reserves	3,930	(7,430)	3,500	0	0	0	0	0	0
Increase / Decrease in Year	(6,183)	(7,430)	(1,065)	5,680	(2,008)	(2,630)	(13,636)	155,820	142,184
Balance at 31 March 2012 carried forward	(32,702)	(61,167)	(10,684)	(9,337)	(3,036)	(21,492)	(138,418)	(352,987)	(491,405)
Movement in reserves during 2012/13									
Deficit or (Surplus) on the provision of services	5,683	0	(11,476)	0	0	0	(5,793)	0	(5,793)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	23,187	23,187
Total Comprehensive Expenditure and Income	5,683	0	(11,476)	0	0	0	(5,793)	23,187	17,394
Adjustments between accounting basis & funding basis under regulations	(15,315)	0	10,795	(767)	1,248	(2,223)	(6,262)	6,262	0
Net Increase / Decrease before Transfers to Earmarked Reserves	(9,632)	0	(681)	(767)	1,248	(2,223)	(12,055)	29,449	17,394
Transfers to / from Earmarked Reserves	9,508	(12,380)	2,872	0	0	0	0	0	0
Increase / Decrease in Year	(124)	(12,380)	2,191	(767)	1,248	(2,223)	(12,055)	29,449	17,394
Balance at 31 March 2013 carried forward	(32,826)	(73,547)	(8,493)	(10,104)	(1,788)	(23,715)	(150,473)	(323,538)	(474,011)

* £9.2m of the General Fund Balance at 31st March 2013 (£8.6m at 31st March 2012) represents school’s balances which can only be spent by school’s under devolved budgetary arrangements.

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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.

2011/12 Gross Expenditure Restated £000	2011/12 Gross Income Restated £000	2011/12 Net Expenditure Restated £000	<u>Comprehensive Income and Expenditure Statement</u>	Notes	2012/13 Gross Expenditure £000	2012/13 Gross Income £000	2012/13 Net Expenditure £000
20,615	(16,725)	3,890	Central Services to the Public		20,446	(16,419)	4,027
25,418	(3,258)	22,160	Cultural Services		21,244	(3,176)	18,068
25,268	(5,352)	19,916	Environmental and Regulatory Services		25,017	(5,918)	19,099
4,523	(2,280)	2,243	Planning Services		5,037	(2,301)	2,736
181,021	(129,684)	51,337	Children's and Education Services		190,406	(131,954)	58,452
42,008	(24,780)	17,228	Highways and Transport Services		41,860	(23,809)	18,051
63,056	(68,689)	(5,633)	Local Authority Housing (HRA)		56,936	(72,456)	(15,520)
120,142	(107,279)	12,863	Other Housing Services		122,481	(109,764)	12,717
70,736	(18,978)	51,758	Adult Social Care		77,130	(24,982)	52,148
7,862	(329)	7,533	Corporate and Democratic Core		4,518	(399)	4,119
1,366	0	1,366	Non Distributable Costs		1,050	0	1,050
88,619	0	88,619	Exceptional Item: HRA Self Financing	50	0	0	0
650,634	(377,354)	273,280	Net Cost of Services		566,125	(391,178)	174,947
		(3,277)	Loss / (Gain) on the disposal of Non Current Assets	52			11,451
		74	Precepts and Levies				71
		779	Amounts payable into the Housing Capital Receipts Pool				722
		(140)	Portchester Crematorium				(150)
		(112)	Miscellaneous Operating Income and Expenditure				(84)
		(2,676)	Other Operating Expenditure				12,010
		21,360	Interest payable and similar charges				25,050
		(3,778)	Interest & Investment income				(4,102)
		7,550	Pensions Interest Costs & Expected Return on Assets	41			8,410
		(3,386)	(Surplus)/Deficit on trading undertakings & other operations	28			(2,901)
		(266)	Income, Expenditure and changes in the fair value of Investment Properties				(68)
		21,480	Financing, and Investment Income & Expenditure				26,389
		(69,128)	Income from Council Tax				(68,928)
		(54,181)	Non Ring Fenced Government Grants	35			(37,602)
		(15,856)	Capital Grants and Contributions	35			(28,100)
		(69,707)	Contribution from Non Domestic Rate Pool	35			(84,510)
		(208,872)	Taxation and Non-Specific Grant Income				(219,140)
		83,212	Deficit / (Surplus) on the Provision of Services				(5,794)
		(1,322)	Surplus or deficit on revaluation of non-current assets				(4,626)
		(136)	Surplus or deficit on revaluation of available for sale financial assets				5,719
		60,429	Actuarial (gains) / losses on pension assets / liabilities	41			22,096
		58,971	Other Comprehensive Income and Expenditure				23,189
		142,183	Total Comprehensive Income and Expenditure				17,395

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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".

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31 March 2012 Restated		Notes	31 March 2013
£000			£000
981,447	Property, Plant & Equipment	9	986,673
47,944	Heritage Assets	45	47,938
33,369	Investment Property	13	33,387
1,352	Intangible Assets	14	1,355
10,270	Long Term Investments	15	43,610
26,320	Long Term Debtors	43	26,085
1,100,701	Non Current Assets		1,139,048
166,520	Short Term Investments	15	180,550
2,344	Inventories		2,726
33,259	Short Term Debtors	17	45,449
71,255	Cash & Cash Equivalents	18	24,200
8,092	Assets Held For sale	19	1,015
281,470	Current Assets		253,940
(6,712)	Short Term Borrowing	15	(6,679)
(65,488)	Short Term Creditors	20	(73,872)
(2,581)	Other Short Term Liabilities		(2,388)
(3,582)	Capital Grant Receipts in Advance	35	(11,996)
(3,957)	Provisions	21	(3,994)
(82,320)	Current Liabilities		(98,929)
(106,783)	Other Long Term Liabilities	44	(104,304)
(3,829)	Provisions	21	(3,176)
(358,173)	Long Term Borrowing	15	(354,822)
(321,848)	Pension liability	41	(350,627)
(17,810)	Capital Grant Receipts in Advance	35	(7,116)
(808,443)	Long Term Liabilities		(820,045)
491,408	Net Assets		474,014
(138,418)	Usable Reserves		(150,475)
(352,990)	Unusable Reserves	22	(323,539)
(491,408)			(474,014)

24th September 2013.

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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.

Restated 2011/12 £000		Notes	2012/13 £000
(83,212)	Net surplus or (deficit) on the provision of services		5,794
30,164	Adjustment to surplus or deficit on the provision of services for non cash movements		57,388
(27,227)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(34,881)
(80,275)	Net Cash flows from Operating activities	23	28,301
(63,012)	Net Cash flows from Investing Activities	24	(68,668)
189,650	Net Cash flows from Financing Activities	25	(6,688)
46,363	Net increase or decrease in cash and cash equivalents		(47,055)
24,892	Cash and cash equivalents at the beginning of the reporting period	18	71,255
71,255	Cash and cash equivalents at the end of the reporting period	18	24,200

The Cash Flow Statement has been restated for 2011/12 to reflect the change in accounting policy in relation to the Solent Local Enterprise Partnership. In addition, £168.8m proceeds from investments have been reclassified as it is felt more appropriate to show these under Investing Activities rather than Operating Activities as shown previously.

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NOTES TO THE FINANCIAL STATEMENTS

1. 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 2012/13 financial year and its financial position at 31st March 2013.

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 non-current 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 the methodology used for making 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 so that like for like comparisons can be made.

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

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Non-current Assets

The City Council classifies its non-current 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.

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.

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 is provided for all property, plant and equipments assets (other than land, certain community assets and assets under construction) where a finite useful life has been determined. This is with the intention of writing off their balance sheet values in equal instalments over their remaining expected useful lives. This is commonly referred to as the "straight line" method. Depreciation is charged from the end of the year following the year of acquisition.

Depreciation charges to the General Fund are reversed out in the Movement in Reserves Statement through an appropriation from the Capital Adjustment Account. Although depreciation is not ultimately charged to General Fund balances provision is made for the repayment of debt in accordance with statutory guidance.

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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 the 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.

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 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.

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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 Council's 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 either valued at cost or, if bequeathed or donated at nil consideration.

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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 a valuation ascertained by the museums' curators.

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 non-current 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.

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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 non current 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 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 either cost or net realisable value.

Cash Equivalents

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

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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.

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, the expenditure 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 or Housing Revenue Account balances so that no net charge against Council Tax arises from the expenditure.

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

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.

a) Finance Leases Where the Council is the Lessee

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.

b) Finance Leases Where the Council is the Lessor

Where substantially all of the risks and rewards relating to the leased property transfer to the tenant, the lease is classified as a finance lease. The leased out asset is not included in the Council's balance sheet, but the capital element of the finance lease rentals are deemed to create a long term debtor. As payments are received, the long term debtor is reduced by the capital element of each rental payment and the finance element of the rent is credited to Net Operating Expenditure in the Comprehensive Income & Expenditure Statement.

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c) Operating Leases

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).

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 current accounting year, being the period in which the employee earned 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.

Where termination benefits involve enhancement of pensions, statutory provisions require the General Fund or the Housing Revenue Account 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.

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Retirement Benefits

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

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

All three schemes provide defined benefits to members (retirement lump sums and pensions). Further details of the pension schemes that the Council participates in are provided in notes 41 and 42.

However, the arrangements for the teachers scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pension Scheme in the year.

The Local Government scheme and the Pilots National Pension scheme are reported under International Accounting Standard 19 (IAS19) 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 pension funds.

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. None of the Council's PFI schemes involved up front capital payments by the Council. 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 the liability arising from capital expenditure undertaken by the contractor – 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

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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 to the Financial Statements describing 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 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.

Financial Liabilities

The Council's financial liabilities are carried in the balance sheet at amortised cost.

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.

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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.

b) Available for sale Assets

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

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Maintained Schools

Community schools receive their funding through the Council and their buildings are owned and maintained by the Council. Therefore the income, expenditure, assets, liabilities and reserves of community schools are included in the Council's accounts.

Some maintained schools are voluntary aided or controlled, or are governed by a trust. These schools receive their funding through the Council and the income, expenditure, current assets, liabilities and reserves are included in the Council's accounts. However, the Council does not own the land and buildings that these schools' occupy, and the development and maintenance of these schools' buildings rests with the diocese or a trust rather than the Council. Therefore the land and buildings that these schools' occupy is not included in the Council's balance sheet.

Academy schools receive their funding through the Government and the Council has transferred the land and buildings that these schools occupy through a long leasehold agreement. Therefore the income, expenditure, assets, liabilities and reserves of academies are excluded from the Council's accounts.

Some maintained schools have applied to convert to academies. The Council will lease the land and buildings that these schools occupy to the academy trust on a 125 year lease at a peppercorn rent. The Council's policy is to account for schools converting to academies as a transfer of function. Therefore the assets of schools converting to academies continue to provide services until the transfer date and are not impaired.

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. Similarly any income or expenditure earned or incurred from activities are accounted for in the Comprehensive Income and Expenditure Statement.

Solent Local Enterprise Partnership (LEP)

The Council is the accountable body for nearly all the funding of the Solent LEP including the Growing Places Fund. The Solent LEP will lend its funds to organisations in the private and public sectors to generate economic growth in south Hampshire and the Isle of Wight. As accountable body the Council has a veto on all lending and bears the credit risk associated with lending by the LEP. As the Council bears significant risks it regards itself as the principal and accordingly includes the Solent LEP's income, expenditure, assets and liabilities in its accounts.

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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.

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. The Council's liability only impacts if surrendered allowances prove insufficient.

Apportionment of Interest Costs to the Housing Revenue Account

The Council maintains a single loans pool. For the purpose of apportioning borrowing costs it is assumed that the Housing Revenue Account (HRA) is under or over financed in the same proportion as the Council as a whole. The HRA is charged interest at the Council's average cost of borrowing adjusted to take account of any under or over financing which is charged at the average return on the Council's investments.

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2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The adoption of amendments to IAS19 Employee Benefits (amended June 2011) by the Code will result in a number of changes in accounting policy. Termination benefits are currently recognised when the authority is demonstrably committed to paying them. The amendments to IAS19 will require termination benefits to be recognised when the authority cannot withdraw the offer. The amendments to IAS19 will require additional more detailed disclosures. In addition IAS19 has been amended in respect of post employment benefits as follows:

- The expected return on assets is calculated at a discount rate, instead of as currently at an expected return based on actual assets held in the Pension Fund.
- The interest on the service cost is included in the service cost itself.

The effect of these changes in respect of the Local Government Pension Scheme would be to increase the cost of the Provision of Services in the Comprehensive Income and Expenditure Statement by £6.9m in 2012/13 and to reduce Other Comprehensive Income and Expenditure by £6.9m. There will be a similar effect in respect of the Pilot's Pension Scheme but the Council's liability under this scheme is much smaller and the Council has not commissioned actuaries to calculate the effect. The balance sheet is not affected by these amendments to IAS19.

The adoption of amendments to IAS 1 Presentation of Financial Statements (issued June 2011) by the Code will result in a change in accounting policy. Currently when an available for sale asset is derecognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Available for Sale Reserve and charged to the Surplus or Deficit on the Provision for Services. The amendment to IAS1 requires gains and losses from the derecognition of available for sale assets to be disclosed separately on the face of the Comprehensive Income and Expenditure Statement. The Council's only available for sale asset is the stevedoring company it owns, MMD (Shipping Services) Ltd. It is likely that this standard will not have a material impact on the financial statements of the Authority unless MMD (Shipping Services) is derecognised.

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued December 2011) by the Code will result in a change in accounting policy. The amendments to IFRS 7 require additional disclosures relating to the effect of netting off financial instruments in the balance sheet. It is likely that this standard will not have a material impact on the financial statements of the Authority.

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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 value of these assets as at 31 March 2013 was £107.1m. 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 £10.5m as at 31 March 2013) are recognised as Property, Plant and Equipment on the Council's balance sheet.
- The Council has made judgements on whether assets are classified as Investment Property or Property Plant and Equipment. 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 primary tests consist of whether the lease transfers ownership of the asset to the lessee by the end of the lease term; whether the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain that the option will be exercised; the lease term is for the major part of the economic life of the asset (the Council has taken the view that the term of a finance lease would equate to over half the asset's life); the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset (the Council has taken the view that the net present value of the minimum lease payments under a finance lease would amount to at least 80% of the fair value of the asset); and whether the leased assets are of such a specialised nature that only the lessee can use them without major modifications. The outcomes of these tests are considered individually and collectively. The accounting treatment for operating and finance leases is significantly different and could have a significant effect on the accounts.

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- The Council has made judgements about whether it controls voluntary aided and voluntary controlled schools. The Council does not own these buildings and the Governing Bodies are responsible for capital works. The Council does not have access to the sale proceeds if the assets were disposed of and any decision to dispose of the assets requires the approval of the secretary of state. The Council does not consider that it controls these schools and has not included them on its balance sheet.

4. ASSUMPTIONS MADE ON SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Non-Current Assets	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.	<p>If the useful life of assets is reduced, depreciation increases & the carrying amount of the asset falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £2.6m for every year that useful lives had to be reduced.</p>
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates & 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.
Arrears	At 31st March 2013, the Authority had a balance for sundry debtors for £19.7m. A review of significant balances suggested that an impairment of doubtful debts of 14.2% (£2.8m) 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 £2.8m to set aside as an allowance.

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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 DFDS Seaways. 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 £16m.

6. DISCLOSURE OF THE IMPACT OF A CHANGE IN ACCOUNTING POLICY

For 2012/13, the Council has changed its accounting policy in relation to the Solent Local Enterprise Partnership (LEP). As the accountable body for the Solent LEP, the Council holds government grants, including the Growing Places Fund that will be loaned to organisations, including the City Council, to generate economic growth in south Hampshire through the Solent LEP. Previously these funds were shown on the Council's balance sheet under other short term liabilities. The new approach is to include the Solent LEP's income, expenditure, assets and liabilities in its accounts.

The Council has amended its accounting policy because it believes that it is the principal in the LEP's transactions as it has a veto on all lending and bears the credit risk of lending by the LEP.

In applying the new accounting policy, the Council has identified government grants amounting to £18.1m, including the Growing Places Fund, on its 31 March 2012 balance sheet shown under Other Short Term Liabilities. There were no material revenue transactions in the Council's 2011/12 accounts relating to the LEP. The effect of the restatement is to reclassify the capital government grants of £16.7m relating to the LEP as Capital Grant Receipts in Advance, and to reclassify revenue grants of £1.4m as Short Term Creditors.

The fully restated 31 March 2012 balance sheet is shown on page 28. The adjustments that have been made to the balance sheet over the version published in the 2011/12 Statement of Accounts are as follows:

	Opening Balance as stated at 31 March 2012 £,000	Opening Restated Balance Sheet as at 31 March 2012 £,000	Correction required to balances at 31 March 2012 £,000
Short Term Creditors	(64,103)	(65,488)	(1,385)
Other Short Term Liabilities	(20,705)	(2,581)	18,124
Current Liabilities	(99,059)	(82,320)	16,739
Capital Grant Receipts in Advance	(1,071)	(17,810)	(16,739)
Long Term Liabilities	(791,704)	(808,443)	(16,739)

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As revenue grants of £1.4m are an investing activity, the cash flow statement has also been restated as follows. In addition, £168.8m proceeds from investments have been reclassified as it is felt more appropriate to show these under investing activities rather than operating activities as shown previously.

	Original 2011/12 Cash Flow Statement £000	Restated 2011/12 Cash Flow Statement £000	Restated Due to Reclassification £000	Restated Due to Change in Accounting Policy on the LEP £000
Adjustments to surplus or deficit on the provision of services for non cash movements	28,779	30,164		1,385
Adjust for items included in the net surplus or deficit on the provision of services that are investment and financing activities	141,573	(27,227)	(168,800)	
Net cash flows from operating activities	87,140	(80,275)	(168,800)	1,385
Net cash flows from investing activities	(230,427)	(63,012)	168,800	(1,385)

There is no impact on the 2011/12 Comprehensive Income and Expenditure Statement.

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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.

2012/13	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		
Adjustments between accounting basis & funding basis under regulations								
- Analysis Adjustments involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non current assets	(32,703)		5,360				(27,343)	27,343
Movements in the market value of Investment Properties	59						59	(59)
Amortisation of intangible assets	(285)						(285)	285
Revenue expenditure funded from capital under statute	(1,313)		(31)			(1,669)	(3,013)	3,013
Amounts of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the CIES	(14,620)		(1,393)				(16,013)	16,013
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	7,896		2,954				10,850	(10,850)
Repayment of transferred debt	640						640	(640)
Capital expenditure charged against the General Fund and HRA balances	3,829						3,829	(3,829)
Adjustments involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to CIES	25,452		2,648			(28,100)	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account						27,546	27,546	(27,546)
Adjustments involving the Capital Receipts Reserve:								
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	2,317		2,275		(5,061)		(469)	469
Loan Repayments					(521)		(521)	521
Use of Capital Receipts Reserve to finance new capital expenditure					5,414		5,414	(5,414)
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	(722)					722	0	0
Use of capital receipts to provide for the repayment of debt					694		694	(694)
Adjustments involving the Major Repairs Reserve:								
Reversal of Major Repairs Allowance credited to the HRA			(139)	(13,708)			(13,847)	13,847
Use of Major Repairs Reserve to finance new capital expenditure				12,941			12,941	(12,941)
Adjustments involving the Financial Instruments Adjustment Account:								
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	137		115				252	(252)
Adjustments involving the Pensions Reserve								
Reversal of items relating to retirement benefits debited or credited to the CIES	(23,509)		(2,601)				(26,110)	26,110
Employer's pension contributions and direct payments to pensioners payable in the year	17,947		1,480				19,427	(19,427)
Adjustments involving the Collection Fund Adjustment Account:								
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	331						331	(331)
Adjustment involving the Accumulated Absences Account:								
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	(147)		127				(20)	20
Adjustment involving the Revaluation Reserve:								
Depreciation of non-current asset revaluation gains							0	0
Adjustments involving the Capital Receipts Deferred Account:								
Mitigation of lost revenue from operating leases being reclassified as finance leases under SI454/2011	(624)						(624)	624
Adjustments between accounting basis & funding basis under regulations	(15,315)	0	10,795	(767)	1,248	(2,223)	(6,262)	6,262

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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		
Adjustments between accounting basis & funding basis under regulations								
- Analysis Adjustments involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
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	(42)		(88,619)		(102)		(88,763)	88,763
Amounts of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the CIES	(5,243)		(595)				(5,838)	5,838
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
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)
Adjustments involving the Capital Grants Unapplied Account:								
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)
Adjustments involving the Capital Receipts Reserve:								
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 redceipts pool	(779)				779		0	
Adjustments involving the Major Repairs Reserve:								
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)
Adjustments involving the Financial Instruments Adjustment Account:								
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)
Adjustments involving the Pensions Reserve								
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)
Adjustments involving the Collection Fund Adjustment Account:								
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
Adjustment involving the Accumulated Absenses Account:								
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)
Adjustment involving the Revaluation Reserve:								
Depreciation of non-current asset revaluation gains							0	0
Adjustments involving the Capital Receipts Deferred Account:								
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

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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 2012/13.

	Balance at 1 April 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Balance at 31 March 2013 £000
General Fund:							
Earmarked for Capital Purposes	(6,389)		(4,127)	(10,516)	1,109	(5,360)	(14,766)
Medium Term Resource Strategy Reserve	(12,074)	1,454		(10,620)	2,761	(8,009)	(15,868)
Private Finance Initiative Reserve	(20,667)	1,169		(19,498)	2,032	(448)	(17,914)
Parking Reserve	(1,175)		(425)	(1,600)	1,361	(940)	(1,179)
Other	(8,292)		(2,001)	(10,293)	2,518	(4,533)	(12,308)
Total	(48,597)	2,623	(6,553)	(52,527)	9,782	(19,290)	(62,035)
HRA:							
HRA Capital Reserve	(5,140)		(3,500)	(8,640)		(2,872)	(11,512)
	(53,737)	2,623	(10,053)	(61,167)	9,782	(22,163)	(73,548)

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

Parking Reserve holds funds generated by surpluses created from on street parking charges. This is a statutory reserve that must be applied to fund investment in transport.

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.

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9. PROPERTY, PLANT & EQUIPMENT

Movements on Balances: Comparative Movements in 2011/12

	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
Cost or Valuation								
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
At 31st March 2012	702,137	519,333	55,329	134,285	2,442	631	28,289	1,442,446
Depreciation								
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
At 31st March 2012	0	(15,933)	(17,202)	(22,981)	0	0	0	(56,116)
Impairment								
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)
At 31st March 2012	(273,661)	(126,534)	(201)	(4,091)	(53)	(342)	0	(404,882)
Net Book Value								
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

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Movements in 2012/13

	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
Cost or Valuation								
At 1st April 2012	702,137	519,333	55,329	134,285	2,442	631	28,289	1,442,446
Additions		680					51,020	51,700
Disposals	(2,600)	(13,224)	(101)	(296)	(17)			(16,238)
Revaluations	(12,472)	(4,498)	(453)	(56)	16			(17,463)
Reclassifications	17,330	10,675	1,096	4,717	73	1,384	(36,347)	(1,072)
At 31st March 2013	704,395	512,966	55,871	138,650	2,514	2,015	42,962	1,459,373
Depreciation								
At 1st April 2012	0	(15,933)	(17,202)	(22,981)	0	0	0	(56,116)
Charge in Year	(12,518)	(8,134)	(5,655)	(3,573)				(29,880)
Disposal	46	86	3	217				352
Revaluations	12,472	8,989	565	64				22,090
Reclassifications								0
At 31st March 2013	0	(14,992)	(22,289)	(26,273)	0	0	0	(63,554)
Impairment								
At 1st April 2012	(273,661)	(126,534)	(201)	(4,091)	(53)	(342)	0	(404,882)
Charge in Year	5,361	(15,148)	(129)	(150)	(23)			(10,089)
Disposal	1,013	5,134	98	80				6,325
Reclassifications		102				(600)		(498)
At 31st March 2013	(267,287)	(136,446)	(232)	(4,161)	(76)	(942)	0	(409,144)
Net Book Value								
At 1st April 2012	428,476	376,866	37,926	107,213	2,389	289	28,289	981,448
At 31st March 2013	437,108	361,528	33,350	108,216	2,438	1,073	42,962	986,675

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Tangible non-current 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 Corporate Assets, Business & Standards 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 2013.

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. In 2012/13 £5.3m was reversed against previous impairment losses in the Surplus or Deficit on the Provision of Services.

At 31 March 2013 five schools with a net book value of £38m had applied to become Academies in 2013/14.

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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
2012/13	437,108	115,750	1,992	5,576	37	269	9,713	-	-	570,445
2011/12	-	25,516	6,292	15,977	1,074	38	5,041	-	-	53,938
2010/11	-	89,409	6,063	17,857	1,315	-	5,906	-	-	120,550
2009/10	-	122,899	10,646	63,578	14	468	12,723	1,015	-	211,343
2008/09	-	4,334	7,389	-	-	-	5	-	-	11,728
Valued at Historic Cost	-	3,620	968	5,228	-	298	-	-	42,962	53,076
	437,108	361,528	33,350	108,216	2,440	1,073	33,388	1,015	42,962	1,021,080

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** – Based on useful lives calculated on a componentised basis.
- 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.

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11. INFORMATION ON ASSETS HELD

Fixed assets owned by the City Council include the following:	31st March 2012	31st March 2013
Nursery schools	1	1
Primary schools	45	44
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	5	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	0
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	15,184	15,147
Civic offices	1	1
Guildhall	1	1
Carers centre	1	1
Public conveniences	28	28
Community centres	15	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	2	2
Freehold Ferry terminals	2	2
Ferry port berths	5	5
Link span bridges	5	5
Long-term car park in commercial port	1	1
Commercial properties	1,401	1,382
Business Centres	3	3
Industrial/Training unit (PCMI)	1	1
Tourist information centres	1	0
Off-street car parks	26	26

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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:

Capital Programme	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later £000
Culture, Leisure & Sport	4,283	1,987	630	630	0	0
Children & Education	19,027	9,728	8,889	0	0	0
Environment & Community Safety	636	3,090	22,340	22,340	14,000	200
Health & Social Care (Adults Services)	1,162	3,604	1,810	114	0	0
Resources	7,770	684	3,500	4,500	0	0
Millennium	812	90	0	0	0	0
Planning, Regeneration & Economic Development	2,503	5,696	6,599	13,092	30,223	2,900
Commercial Port	1,379	2,600	0	0	0	0
Housing Investment Programme	37,533	37,458	29,613	29,235	32,776	34,535
Traffic & Transportation	29,375	12,672	3,875	2,689	2,449	39,766
Total Capital Programme	104,480	77,609	77,256	72,600	79,448	77,401

(b) Contractual Commitments

The Authority was legally committed to the following significant capital contracts at 31st March 2013:

Capital Contracts	£000
Flying Bull Primary School internal remodelling and refurbishment	2,149
Construction of Tipner Interchange and Bus Lane	11,800
Replacement bridge in Northern Road Portsmouth	2,600
Community Hub in Somerstown over Winston Churchill Avenue	8,870

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.

Investment Properties	2011/12 £000	2012/13 £000
Rental Income from Investment Property	4,023	4,048
Direct operating expenses arising from Investment Property	(114)	(106)
Net gain / (loss)	3,909	3,942

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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.

Investment Properties	2011/12 £000	2012/13 £000
Balance at start of year	33,372	33,369
Disposals	(84)	(170)
Net gains / losses from fair value adjustments	266	68
Reclassifications	(185)	121
Balance at end of year	33,369	33,388

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:

Intangible Assets	2011/12			2012/13		
	Internally Generated Assets £000	Other Assets £000	Total £000	Internally Generated Assets £000	Other Assets £000	Total £000
Balance at start of year:						
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)
Net carrying amount at start of year	0	1,421	1,421	0	1,352	1,352
Additions:						
Internal development	0	0	0	0	0	0
Purchases	0	0	0	0	0	0
Other disposals carrying amount	0	(4)	(4)	0	0	0
Other disposals accumulated amortisation	0	4	4	0	0	0
Impairment	0	(4)	(4)	0	0	0
Reclassifications	0	301	301	0	422	422
Amortisation for the period:						
Charge to net cost of services	0	(366)	(366)	0	(419)	(419)
Net carrying amount at end of year	0	1,352	1,352	0	1,355	1,355
Comprising:						
Gross Carrying Amounts	0	3,597	3,597	0	4,019	4,019
Accumulated amortisation	0	(2,245)	(2,245)	0	(2,664)	(2,664)
	0	1,352	1,352	0	1,355	1,355

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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:

Borrowings and Investments	Long-Term		Current	
	31st March 2012 £000	31st March 2013 £000	31st March 2012 £000	31st March 2013 £000
Financial liabilities at amortised cost	(449,877)	(444,818)	(67,694)	(54,923)
Loans & receivables	26,320	65,152	261,924	232,655
Equity interest in MMD (Shipping Services) Ltd	10,270	4,543		

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 £5.4m at 31st March 2013 (£5.9m at 31st March 2012). 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. £6.3m 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 £0.8m was outstanding at 31st March 2013 (£1.0m at 31st March 2012)

The Council has lodged £0.6m 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 £3m 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 £2.4m.

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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:

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

2012/13	Financial Liabilities	Financial Assets	
	Measured at Amortised Cost £000	Loans & Receivables £000	Total £000
Interest expense	25,050	-	
Impairment Losses	-	25	
Interest Payable & Similar Charges	25,050	25	25,075
Interest & Investment Income	-	(4,095)	(4,095)
Net gain / (loss) for the year	25,050	(4,070)	

The Authority owns a stevedoring company. As the company is not currently generating cash it is carried in the balance sheet at its net worth. The net worth of the company reduced by £5.8m from £10.3m to £4.5m in 2012/13. This loss 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, the carrying amount is assumed to approximate to fair value

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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 2012		31st March 2013	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial Liabilities	(517,571)	(656,535)	(499,741)	(673,826)

The fair value is more than the carrying amount because the Authority's liabilities include 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 2012		31st March 2013	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and Receivables	288,244	310,903	297,807	321,835

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 movements in interest rates and market levels.

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 the Council in the Annual Treasury Management Strategy.

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Credit Risk

Credit risk arises from deposits with banks and financial institutions, and 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. The Annual Investment Strategy also provides a maximum amount to be invested with any single counter-party.

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 the Council.

The Authorities maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed in general, 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 2013 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.

	Amount at 31st March 2013 (Net of bad debt provision) £000	Historical Experience of Default %	Historical Experience Adjusted for Market Conditions at 31st March 2013 %	Estimated Maximum Exposure to Default & Uncollectability at 31st March 2013 £000	Estimated Maximum Exposure at 31st March 2012 £000
	A	B	C	(A x C)	
Deposits with commercial companies	3,095	0.0	5.0	155	127
Customers	19,514	22.5	22.5	4,391	3,837
Housing rents	1,046	13.2	13.2	138	156
Housing mortgages	6,788	0.0	11.0	747	728
Other long term debtors	16,203	0.0	0.0	0	0
				5,431	4,848

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

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example could lead to different treatment of wholesale senior unsecured debt, which would include the Council's investments, compared to other liabilities. Despite this, at 31st March 2013 the Council did not have any investments 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. However, there is a balance of £4.4m that is past its due date for payment. This can be analysed by age as follows:

	£000
Less than three months	1,669
Three to six months	287
Six months to one year	364
More than one year	2,073
	4,393

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 35 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.

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Borrowing is as follows:

	31st March 2012 £000	31st March 2013 £000
Within 1 year	3,351	3,351
Between 1 and 2 years	3,351	3,351
Between 2 and 5 years	10,054	10,054
More than 5 years	344,769	341,417
	361,525	358,173

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 exposure to short term and variable interest rate investments. In addition, the Authority 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 also informs whether new borrowings and investments undertaken are fixed or variable.

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According to this assessment strategy, at 31st March 2013, 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 £0.9m. The impact of a 0.5% fall in interest rates would have been a reduction in investment income of £0.9m.

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 £4.5m. 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 £0.8m 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 2012/13.

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17. SHORT-TERM DEBTORS

2012 £000	Outstanding Debtors at 31st March (Net of Bad Debt Provision)	2013	
		£000	£000
5,861	Central Government Bodies		17,634
2,416	Other local authorities		1,557
9,984	Council Tax	10,267	
(5,450)	Less Impairment Allowance	(5,998)	
4,534			4,269
5,745	Housing Rents	4,242	
(2,847)	Less Impairment Allowance	(3,196)	
2,898			1,046
8,304	Housing Benefits	8,058	
(4,147)	Less Impairment Allowance	(4,064)	
4,157			3,994
17,007	Other	19,735	
(3,614)	Less Impairment Allowance	(2,786)	
13,393			16,949
33,259			45,449

Other debtors shown in the table above includes £0.3m of capital receipts.

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18. CASH AND CASH EQUIVALENTS

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

31 March 2012 £'000	31 March 2013 £'000
164 Cash held by the Authority	1,068
(1,834) Bank current accounts	(4,646)
72,925 Investments in money market funds	27,778
<u>71,255</u>	<u>24,200</u>

19. ASSETS HELD FOR SALE

	2011/12 £000	2012/13 £000
Balance Outstanding at start of year	9,024	8,092
Assets newly classified as Held for Sale		
- Property, Plant and Equipment	0	765
- Intangible Assets	0	0
- Other Assets / Liabilities in Disposal groups	0	0
Revaluation gains	0	0
Impairment losses	0	(640)
Assets declassified as Held for Sale:		
- Property, Plant and Equipment	(62)	(200)
- Intangible Assets	0	0
- Other Assets / Liabilities in Disposal groups	0	(120)
Assets sold	(870)	(6,882)
Balance outstanding at year-end	8,092	1,015

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20. SHORT-TERM CREDITORS

Restated 2012 £000	Outstanding Creditors at 31st March	2013 £000
(11,192)	Central Government Bodies	(11,694)
(4,343)	Other local authorities	(3,175)
(2,169)	NHS Bodies	(8,394)
(2,321)	Public Corporations & Trading Funds	(2,264)
(45,463)	Other	(48,345)
(65,488)		(73,872)

21. PROVISIONS

	Outstanding Legal Cases £000	Other Provisions £000	Total £000
Balance at 1 April 2012	(621)	(9,410)	(10,031)
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 in 2011/12	-	(109)	(109)
Balance at 31 March 2012	(621)	(7,164)	(7,785)
Additional provisions made in 2012/13	-	(1,404)	(1,404)
Amounts used in 2012/13	-	909	909
Unused amounts reversed in 2012/13	621	591	1,212
Unwinding of Discounting in 2012/13	-	(102)	(102)
Balance at 31 March 2013	-	(7,170)	(7,170)

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Outstanding Legal Cases

Pilots Pension Fund Deficit

The pilots have their own funded defined benefit pension scheme that has insufficient assets to be viable. 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 trustees of the Pilots Pension Fund have now employed actuaries to estimate the deficit and each employer's liability. This information enables the Council to account for the Pilots Pension Scheme as a defined benefit scheme and the Balance Sheet now includes the liability for the deficit on the Pilots National Pension Scheme under pension liabilities. As the balance sheet now includes the Council's liability for the Pilots Pension Fund deficit under pension liabilities, it was decided to credit the provision back to revenue. The funds that this released have been transferred to an earmarked reserve.

Other Provisions

Pyramids Guarantee £2.4m

The Council is acting as guarantor for £3m 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 £2.4m.

Insurance provision £0.9m

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 £1.0m

Landfill Allowances were 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 £1.3m

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.

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22. UNUSABLE RESERVES

31 March 2012	31 March 2013
£000	£000
(67,548) Revaluation Reserve	(70,596)
(8,185) Available for Sale Financial Instruments Reserve	(2,468)
(588,973) Capital Adjustment Account	(591,500)
2,985 Financial Instruments Adjustment Account	2,733
321,848 Pensions Reserve	350,627
354 Collection Fund Adjustment Account	23
5,174 Accumulating Compensated Absences Adjustment Account	5,194
(18,644) Deferred Capital Receipts	(17,551)
(352,988) Total Unusable Reserves	(323,538)

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its non-current 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 in the Capital Adjustment Account.

2011/12	2012/13	
£000	£000	£000
(67,607) Balance at 1 April		(67,548)
(1,275) Revaluations		(4,574)
1,019 Difference between fair value depreciation and historical cost depreciation	1,302	
315 Accumulated gains on assets sold or scrapped	224	
1,334 Amount written off to the Capital Adjustment Account		1,526
(67,548) Balance at 31 March		(70,596)

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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

2011/12 £000		2012/13 £000
(8,049)	Balance at 1st April	(8,185)
(136)	Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	5,717
(8,185)	Balance at 31st March	(2,468)

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

Capital Adjustment Account			
2011/12		2012/13	
£000	£000	£000	£000
	(681,974)		(588,973)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
29,460	- Charges for depreciation and impairment of non current assets	30,068	
15,509	- Revaluation loses on Property, Plant and Equipment	11,169	
366	- Amortisation of intangible assets	285	
89,032	- Revenue expenditure funded from capital under statute	3,013	
5,206	- (Gain) / loss on disposal taken to the Comprehensive Income and Expenditure Statement	15,709	
597	Loan Repayments	504	
	140,169		60,748
	(1,019)		(1,302)
	(542,824)		(529,527)
	Capital financing applied in the year:		
(4,478)	- Use of Capital Receipts Reserve to finance new capital expenditure	(5,414)	
(17,734)	- Use of Major Repairs Reserve to finance new capital expenditure	(12,941)	
(13,227)	- Application of grants and contributions to finance new capital expenditure	(27,546)	
(9,125)	- Statutory provision for the financing of capital investment charges against the General Fund and HRA balances	(10,850)	
-	- Capital receipts set aside for the repayment of debt	(694)	
(667)	- Repayment of transferred debt	(640)	
(652)	- Capital expenditure charged against the General Fund and HRA balances	(3,829)	
	(45,883)		(61,914)
	(266)		(59)
	(588,973)		(591,500)

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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 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 2013 will be charged to the General Fund over the next 45 years. As at 31st March 2013 £2.5m (£2.7m as at 31 March 2012) of the balance on this account represented net premiums on the early repayment of debt that have yet to be charged to the revenue account.

The Authority gives interest free loans to qualifying home owners to enable them to renovate their houses. The Authority also defers payments due from qualifying social care clients on an interest free basis. Not charging interest on these loans means that fair value of the loan is less than the sum advanced to the borrower. The Code of Practice on Local Authority Accounting requires the Authority to write these loans down to their fair value in the year in which they are advanced through a debit to the revenue account. The value of these loans is written back up to the sum advanced over the term of the loan by crediting the revenue account. The Authority also uses this account to comply with statutory arrangements that require these entries to be reversed out of the revenue account. As at 31st March 2013 £0.2m (£0.3m as at 31 March 2012) of the balance on this account represented reductions in the fair value of long term debtors arising from interest free loans.

Financial Instruments Adjustment Account		
2011/12	2012/13	
£000	£000	£000
3,250 Balance at 1 April		2,985
(65) Proportion of premiums incurred in previous financial years to be charged to balances in accordance with statutory requirements	(115)	
(199) Reverse effect of soft (below market interest rate loans) on the Comprehensive Income and Expenditure Statement	(137)	
(265) 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		(252)
2,985 Balance at 31 March		2,733

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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 pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the 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.

2011/12 £000	2012/13 £000
257,817 Balance at 1 April	321,848
60,430 Actuarial (gains) and losses on pensions assets and liabilities	22,096
23,850 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	26,110
(20,249) Employer's pensions contributions and direct payments to pensioners payable in the year	(19,427)
321,848	350,627

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.

2011/12 £000	2012/13 £000
(722) Balance at 1 April	355
1,077 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	(331)
355	24

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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.

2011/12 £000		2012/13 £000 £000	
5,381	Balance at 1 April		5,174
(5,381)	Settlement or cancellation of the accrual made at the end of the preceding year	(5,174)	
5,174	Amounts accrued at the end of the current year	5,194	
(207)	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		20
5,174	Balance at 31 March		5,194

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.

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2011/12 £000	2012/13 £000
(16,903) Balance at 1 April	(18,644)
Transfer of deferred sale proceeds credited as part of the gain / (2,561) loss on disposal to the Comprehensive Income and Expenditure Statement	0
234 Transfer to Capital Receipts Reserve upon receipt of cash	468
Transfer to Comprehensive Income and Expenditure Statement 586 to mitigate the effect of leases being reclassified as finance leases under IFRS	624
(18,644)	(17,552)

23. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2011/12 £000		2012/13 £000
4,844	Interest received	3,453
(20,575)	Interest paid	(25,083)
0	Dividends received	0

24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

Restated 2011/12 £000		2012/13 £000
(44,180)	Purchases of property, plant and equipment, investment property and intangible assets	(50,662)
(226,510)	Purchase of short-term and long-term investments	(230,540)
(2,427)	Other payments for investing activities	(1,369)
6,135	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6,450
168,800	Proceeds from the sale of short-term and long-term investments	177,962
35,170	Other receipts from investing activities	29,491
(63,012)	Net cash flows from investing activities	(68,668)

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25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2011/12 £000		2012/13 £000
172,619	Cash receipts of short and long term borrowing	0
0	Other receipts from financing activities	0
(2,014)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,087)
15,539	Repayments of short and long term borrowing	(4,108)
3,506	Other payments for financing activities	(493)
189,650	Net cash flows from financing activities	(6,688)

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.

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

Portfolio Analysis	Gross Expenditure 2012/13 £000	Income 2012/13 £000	Net Expenditure 2012/13 £000
Culture, Leisure & Sport	14,233	(2,182)	12,051
Education & Children's Services	185,251	(131,954)	53,297
Environment & Community Safety	21,635	(3,701)	17,934
Health & Social Care	73,090	(25,558)	47,532
Housing	11,161	(2,104)	9,057
Leader	388	(36)	352
Resources	153,964	(125,198)	28,766
Planning Regeneration Economic Development	24,555	(23,909)	646
Traffic & Transportation	25,348	(19,162)	6,186
Governance & Audit Committee	859	(576)	283
Licensing Committee	604	(749)	(145)
Net Cost of Services	511,088	(335,129)	175,959

Portfolio Analysis	Gross Expenditure 2011/12 £000	Income 2011/12 £000	Net Expenditure 2011/12 £000
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)
Net Cost of Services	502,614	(325,433)	177,181

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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.

	2011/12 £000	2012/13 £000
Net Cost of Services	177,181	175,959
Add amounts not reported to management in Service Analysis	83,383	(15,131)
Add amounts not reported to management	15,018	15,906
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement Net Cost of Services	(2,302)	(1,786)
Net Cost of Services in Comprehensive Income and Expenditure Statement under the Code	273,280	174,948

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Reconciliation to Subjective Analysis (Single Entity) 2012/13	Service Portfolio Analysis	Services not in Portfolio Analysis	Not reported to management in year	Not included in CIES	Net Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(64,467)	(72,456)	0	5,299	(131,624)	(6,137)	(137,761)
Surplus or deficit on associates and joint ventures	0	0	0	0	0	(150)	(150)
Interest and investment income	0	0	0	0	0	(4,102)	(4,102)
Income from Council Tax Government grants and contributions	0	0	0	0	0	(68,928)	(68,928)
(Gain) on disposal of Non Current Assets	(270,662)	0	(412)	11,521	(259,553)	(150,212)	(409,765)
Expected Return on Pension Assets	0	0	0	0	0	(25,840)	(25,840)
Changes in the fair value of Investment Properties	0	0	0	0	0	(68)	(68)
Total Income	(335,129)	(72,456)	(412)	16,820	(391,177)	(255,437)	(646,614)
Employee expenses	201,319*	13,347	15,906	(15,941)	214,631	34,250	248,881
Other service expenses	248,561	35,412	412	(1,996)	282,389	2,483	284,872
Support Service Recharges	28,220	0	0	0	28,220	0	28,220
Depreciation, amortisation and impairment	32,988	8,566	0	(669)	40,885	669	41,554
Interest Payments	0	0	0	0	0	25,050	25,050
Precepts and Levies	0	0	0	0	0	71	71
Payments to Housing Capital Receipts Pool	0	0	0	0	0	722	722
Loss on disposal of Non Current Assets	0	0	0	0	0	11,451	11,451
Changes in the fair value of Investment Properties	0	0	0	0	0	0	0
Total Operating Expenses	511,088	57,325	16,318	(18,606)	566,125	74,696	640,821
Surplus or deficit on the provision of services	175,959	(15,131)	15,906	(1,786)	174,948	(180,741)	(5,793)

*The employee expenses include a reversal of £0.6m in respect of the Pilots National Pension Scheme provision.

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

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 2012/13.

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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.

In 2012/13 this category was expanded to include insurance charges to schools. The schools now pay a predetermined charge which is intended to generate a small surplus. Any surplus or deficit at year end is borne by this trading account. Surpluses are transferred to an earmarked reserve so that they can be drawn on in the event of a deficit.

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 £3.07m surplus (£3.14m surplus in 2011/12).
The City Council's operations were as follows:

2011/12				2012/13		
Gross Expenditure £000	Gross Income £000	(Surplus)/ Deficit £000	Trading Units	Gross Expenditure £000	Gross Income £000	(Surplus)/ Deficit £000
397	(226)	171	Operational property	393	(202)	191
179	(1,653)	(1,474)	Industrial property	(41)	(1,612)	(1,653)
96	(231)	(135)	Retail property	92	(239)	(147)
390	(2,887)	(2,497)	Other non-operational property	957	(2,986)	(2,029)
19	(34)	(15)	Agricultural property	16	(41)	(25)
386	0	386	Property review/redevelopment	319	0	319
380	0	380	Property disposals	744	(8)	736
11	(214)	(202)	Offices	142	(168)	(26)
0	0	0	Schools' Insurance	530	(797)	(267)
1,858	(5,245)	(3,386)	Net (surplus)/deficit on Trading and Other Operations	3,152	(6,053)	(2,901)

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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 1 May 2008 the City Council has been a partner in a pooled budget arrangement with Portsmouth City Teaching PCT (host partner). The purpose of the partnership is to provide integrated mental health and substance misuse services. The Adult Mental Health and Substance Misuse Section 75 agreement ceased on 30/6/13 and a new model Section 75 agreement is in place which was effective from 1 July 2013.

	2012/13 £000
Gross Income	13,143
Expenditure	13,112
Surplus	31
Council's contribution	1,589

(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 ran for three years from 1st April 2010. The Integrated Commissioning Unit's Section 75 agreement was renewed in 2013/14.

	2012/13 £000
Gross Income	664
Expenditure	664
Surplus	0
Council's contribution	237

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(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. The figures below are for the period from April to September 2012. After 1 October 2012, these placements formed part of the Continuing Health Care pooled budget arrangement and therefore the figures for the period October 2012 to March 2013 is included within note (d) below.

	2012/13* £000
Gross Income	766
Expenditure	766
Surplus	0
Council's contribution	636
*- the figures denote the period April to September 2012.	

(d) Continuing Health Care (CHC)

Since 1 October 2012 the City Council (host partner) has entered into a pooled budget arrangement with Portsmouth City Teaching PCT for the commissioning of continuing health care (CHC) services. The Council and the PCT have an agreement in place until 31 March 2013. This agreement will be renewed for 2013/14.

	2012/13 £000
Gross Income	22,794
Expenditure	22,665
Surplus	*(129)
Council's contribution	16,337

*- This surplus has been carried forward into 2013/14 in accordance with clause 11.6.(i) of the section 75 agreement.

The CHC is not a true pooled budget as there are two separate pots of monies maintained for both the Council and the PCT. The £0.1m surplus relates solely to the PCT and not the Council.

31. MEMBERS ALLOWANCES

The total amount of members' allowances paid in 2012/13 was £0.6m (£0.6m in 2011/12). Detailed information on members' allowances is available from the Head of Finance and Section 151 Officer, Civic Offices, Guildhall Square, Portsmouth, PO1 2AL.

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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.

2011/12		2012/13
Number of employees		Number of employees
77	£50,000 to £54,999	88
58	£55,000 to £59,999	66
27	£60,000 to £64,999	32
15	£65,000 to £69,999	18
14	£70,000 to £74,999	11
17	£75,000 to £79,999	7
2	£80,000 to £84,999	6
7	£85,000 to £89,999	9
0	£90,000 to £94,999	1
2	£95,000 to £99,999	0
0	£100,000 to £104,999	1
5	£105,000 to £109,999	5
0	£110,000 to £114,999	0
0	£115,000 to £119,999	1
0	£120,000 to £124,999	0
0	£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
225		246

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Senior Officers Emoluments in 2012/13

The following table sets out the remuneration disclosures for Senior Officers whose salary in 2012/13 is less than £150,000, but equal to or more than £50,000:

Post Title	Salary & Allowances £	Total Remuneration Excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
Chief Executive	148,885	148,885	19,504	168,389
Director of Social Services & Strategic Director***	115,890	115,890	15,182	131,072
Section 151 Officer & Head of Financial Services	93,722	93,722	12,278	106,000
Director of Regeneration & Strategic Director	109,430	109,430	14,335	123,765
City Solicitor & Strategic Director	109,430	109,430	14,335	123,765
Port Manager	107,345	107,345	14,062	121,407
Director of Children's Services & Strategic Director	109,430	109,430	14,335	123,765
Solent Local Enterprise Partnership Chief Executive*	44,914	44,914	5,884	50,798
Managing Director for PUSH Team**	58,246	58,246	7,630	65,876

* The Solent Local Enterprise Partnership Chief Executive started on 22nd October 2012. Their annual salary was £105,261.

** The Managing Director for the Partnership for Urban South Hampshire (PUSH) Team transferred to the Solent Local Enterprise Partnership Chief Executive position on the 22nd October 2012. Their annual salary was £95,000.

*** The Director of Social Services provided services to Southampton City Council. Southampton City Council paid £72,686 to the council in order to cover salary costs and expenses.

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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:

Post Title	Salary & Allowances £	Compensation for loss of office £	Total Remuneration Excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
Chief Executive	148,885	-	148,885	19,504	168,389
Director of Social Services & Strategic Director	109,430	-	109,430	14,335	123,765
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 Director	109,430	-	109,430	14,335	123,765
City Solicitor & Strategic Director	107,345	-	107,345	14,062	121,407
Port Manager	105,261	-	105,261	13,789	119,050
Director of Children's Services & Strategic Director	109,430	-	109,430	14,335	123,765
Managing Director for PUSH Team	95,000	-	95,000	12,445	107,445

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

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33. EXTERNAL AUDIT COSTS

This note discloses the fees paid to the Audit Commission for work carried out in 2012/13.

2011/12 £000		2012/13 £000
304	External Audit Services	198
55	Certification of grant claims & returns	27
0	Statutory inspection	0
8	Other	2
367	Total	227

No other non-statutory services were provided.

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 2012/13 are as follows:

Description	Central Exp £000s	Schools Budget £000s	Total £000s
Final DSG for 2012/13 before academy recoupment	7,509	118,248	125,757
Academy figure recouped for 2012/13	(33)	(2,880)	(2,913)
Total DSG after Academy recoupment for 2012/13	7,476	115,368	122,844
Brought forward from 2011/12	2,175		2,175
Carry forward to 2013/14 agreed in advance			0
Agreed initial budgeted distribution in 2012/13	9,651	115,368	125,019
In year adjustments	720	(720)	0
Final budget distribution for 2012/13	10,371	114,648	125,019
Less actual central expenditure	7,916		7,916
Less Actual ISB deployed to schools		114,657	114,657
Plus Local authority contribution for 2012/13	0	0	0
Carry forward to 2013/14	2,455	(9)	2,446

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35. GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

	2011/12 £000	2012/13 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(21,547)	(1,638)
Early Intervention Grant	(9,542)	(9,887)
PFI Grant	(11,520)	(11,521)
Council Tax Freeze Grant	(1,721)	(1,721)
New Homes Bonus Grant	(334)	(1,297)
Local Services Support Grant	(989)	(963)
Learning Disability and Health Reform Grant	(6,279)	(6,444)
Housing Benefit and Council Tax Benefit Admin Grant	(2,249)	(2,106)
Contribution from NNDR Pool	(69,707)	(84,510)
Community Rights to Challenge	0	(9)
Section 31 Top Slice	0	(1,356)
Weekly Refuse Collection Support Scheme	0	(575)
Local Council Tax Support Scheme (New Burden)	0	(84)
Capital Grants and Contributions	(15,855)	(28,100)
	(139,743)	(150,211)
Credited to Services		
Council Tax Benefit Subsidy	(14,765)	(14,383)
Rent Allowance Subsidy	(63,591)	(64,951)
HRA Rent Rebates Subsidy	(38,826)	(40,150)
Non HRA Rent Rebates Subsidy	(1,056)	(684)
Sure Start Grants	(74)	0
Dedicated Schools Grant	(121,071)	(122,574)
School Standards Grant & Schools Standard Fund	(1,559)	(0)
Local Sustainable Transport Fund	0	(401)
Solent Local Enterprise Partnership Grant	0	(412)
Other grants	(7,103)	(15,364)
	(248,045)	(258,919)

The council had a large reduction in its Revenue Support Grant allocation in 2012/13, due to funding constraints from central government as well as a switch in funding streams from RSG to NNDR. For a like for like comparison these two funding streams need to be amalgamated together.

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The council had a large increase in capital grants and contributions in 2012/13. This is largely due to £11.3m of Section 31 grant being received from the Department for Transport in connection with the construction of the Tipner motorway junction and park & ride scheme, and the rebuilding of Northern Road Bridge.

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 could require the monies or property to be returned to the giver. The balances at year-end are as follows:

	Restated 2011/12 £000	2012/13 £000
Capital Grants Receipts in Advance		
Department for Transport Section 31 Grants	(378)	(378)
PUSH Funding	(1,925)	0
Regional Housing Pot Capital Grant	(527)	(527)
Other grants	(714)	(215)
Section 106 Receipts	(956)	(776)
Solent Local Enterprise Partnership (See Note 6)	(16,739)	(16,739)
Other contributions	(153)	(477)
	(21,392)	(19,112)

	2011/12 £000	2012/13 £000
Revenue Grants Receipts in Advance		
Dedicated Schools Grant	(2,175)	(2,445)
Other Grants	(2,561)	(2,818)
	(4,736)	(5,263)

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.

Central Government

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.

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Members

Members of the City Council have direct control over the Council's financial and operating policies. The Council paid £1.5m to organisations where members had been appointed by the Council to hold positions on the governing body.

Ex- Lord Mayor, Cheryl Buggy, is a remunerated director of Express FM (Portsmouth) Ltd. The City Council spent £12,800 with Express FM (Portsmouth) Ltd in 2013 (Nil 2012) all of which occurred after Cheryl Buggy's departure from the authority in May 2012. Ex- Lord Mayor, Cheryl Buggy is also a director of and shareholder in Express FM Limited.

Details of these transactions are recorded in the register of members' interests, open for inspection during office hours at the Civic Offices, Guildhall Square, Portsmouth PO1 2AL.

Officers

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. Senior officers are required to declare any transactions with the City Council. No transactions have been disclosed.

Other Public Bodies

The City Council appoints two members to the Portchester Crematorium Joint Committee, has 25% of the voting rights on the Joint Committee and receives 25% of the dividends. The other three investors are Fareham, Havant and Gosport Borough Councils. The City Council received a dividend of £150,000 in 2012/13 (£140,000 in 2011/12).

Entities Controlled or Significantly Influenced by the Council

Portsmouth City Council trades extensively with its subsidiary MMD. Details of the relationship between the City Council and its subsidiary are provided in note 51.

In December 2010, Portsmouth City Council created an independent Not for Profit Distributing Organisation called the Portsmouth Cultural Trust to take over the running of the Portsmouth Guildhall. As part of a two year Partnering and Funding Agreement between Portsmouth City Council and The Portsmouth Cultural Trust, a revenue contribution of £0.6m per annum was agreed to be paid to the Portsmouth Cultural Trust to assist in the operational management of the Portsmouth Guildhall. Councillor Terry Hall currently resides on the board of trustees as a Portsmouth City Council Representative. A meeting is held between both parties every quarter to review the financial performance of the Portsmouth Cultural Trust in which Portsmouth City Council provide advice and guidance in a supporting capacity as required.

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37. CAPITAL EXPENDITURE AND CAPITAL FINANCING

2011/12 £000's		2012/13 £000's
336,537	Opening capital financing requirement	426,721
	Capital Investment	
43,709	Operational assets (tangible & intangible)	50,599
301	Intangible Assets	422
89,032	Revenue expenditure funded from capital under statute	3,013
3,025	Loans advanced	1,326
<u>136,067</u>		<u>55,360</u>
	Sources of finance	
(4,478)	Capital receipts	(5,414)
(13,227)	Grants & contributions	(27,546)
	Sums set aside from revenue:	
(667)	- Direct revenue contributions	(3,788)
(17,734)	- Use of Major Repairs Reserve	(12,941)
(9,777)	- Minimum Revenue Provision	(11,490)
-	Capital receipts set aside to repay debt	(694)
<u>(45,883)</u>		<u>(61,873)</u>
<u>426,721</u>	Closing capital financing requirement	<u>420,208</u>
	The capital financing requirement is met by the following items in the balance sheet:	
1,074,363	Fixed assets including equity investments	1,073,893
6,592	Housing General Fund mortgages	6,769
2,381	Advances to subsidiaries	3,095
8,091	Assets Held for Sale	1,015
(8,185)	Available for Sale Reserve	(2,468)
(67,548)	Revaluation Reserve	(70,596)
<u>(588,973)</u>	Capital Adjustment Account	<u>(591,500)</u>
<u>426,721</u>		<u>420,208</u>

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The capital financing requirement decreased by £6.5m in 2012/13 for the following reasons:

2011/12 £000's		2012/13 £000's
1,678	Increase in underlying need to borrow (supported by government financial assistance)	501
98,084	Increase in underlying need to borrow (unsupported by government financial assistance)	5,032
(9,777)	Provision for the repayment of debt	(12,183)
199	Adjutments to the carrying value of soft loans	137
90,184	Increase / (decrease in Capital Financing Requirement)	(6,513)

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 2012 £000	31st March 2013 £000
Other Land & Buildings	512	428
Vehicles, Plant & Equipment	3,313	2,779
	3,825	3,207

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:

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	31 March 2012	31 March 2013
	£000	£000
Finance lease liabilities (net present value of minimum lease payments):		
Current	1,075	935
Non current	8,934	8,451
	10,009	9,386

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012	31 March 2013	31 March 2012	31 March 2013
	£000	£000	£000	£000
Not later than one year	1,086	943	835	724
Later than one year and not more than five years	3,543	3,352	2,842	2,769
Later than five years	8,126	7,374	1,658	1,007
	12,755	11,669	5,335	4,500

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 2012/13 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 2013 the minimum payments expected to be received under non-cancellable sub-leases was £0.3m (£0.3m at 31st March 2012).

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:

	31st March 2012 £000	31st March 2013 £000
Not more than one year	717	685
Later than one year and not later than five years	1,557	1,473
Later than five years	16,615	17,493
	18,889	19,651

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Authority as Lessor

Finance Leases

The Authority has leased out property at 407 Middle Park Way, the Healthy Living Centre, 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:

	31 March 2012 £000	31 March 2013 £000
Finance lease debtor (net present value of minimum lease payments):		
current	697	648
non current	5,029	4382
Unguaranteed residual value of property	376	376
Gross investment in lease	<u>6,102</u>	<u>5,406</u>

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	
	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000
Not later than one year	697	648	697	648
Later than one year and not later than five years	2,223	1,886	1,949	1,613
Later than five years	3,183	2,872	3,080	2,769
	<u>6,103</u>	<u>5,406</u>	<u>5,726</u>	<u>5,030</u>

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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 uncollectable 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 2011/12 or 2012/13.

Operating Leases

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

- for the provision of leisure facilities and refuse collection services
- 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 2012 £000	31st March 2013 £000
Not later than one year	4,836	5,547
Later than one year and not later than five years	18,730	15,983
Later than five years	6,388	5,490
	29,954	27,020

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 2012/13 and 2011/12 no contingent rents were receivable by the Authority.

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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 non-current assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the non-current 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.

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

	Miltoncross Secondary School £000	Learning Disability Facilities £000	Highways Maintenance £000	Waste Disposal £000	Total £000
Cost or Valuation					
At 1st April 2011	22,664	7,274	80,718	14,107	124,763
Additions					0
Revaluations					0
Reclassifications	14		8,745		8,759
At 1st April 2012	22,678	7,274	89,463	14,107	133,522
Additions			7,158		7,158
Revaluations					0
Reclassifications	21		3,348		3,369
At 31st March 2013	22,699	7,274	99,969	14,107	144,049
Depreciation					
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
At 1st April 2012	(340)	(113)	(13,262)	(2,664)	(16,379)
Charge in Year	(340)	(113)	(2,367)	(890)	(3,710)
Revaluations					0
Reclassifications					0
At 31st March 2013	(680)	(226)	(15,629)	(3,554)	(20,089)
Impairment					
At 1st April 2011	(1,475)	(743)	(4,007)	(92)	(6,317)
Charge in Year	(14)				(14)
Reclassifications					0
At 1st April 2012	(1,489)	(743)	(4,007)	(92)	(6,331)
Charge in Year	(21)				(21)
Reclassifications					0
At 31st March 2013	(1,510)	(743)	(4,007)	(92)	(6,352)
Net Book Value					
At 1st April 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
At 31st March 2013	20,509	6,305	80,333	10,461	117,608

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

	Liability as at 31 March 2012 £000s	Payments £000s	Liability as at 31 March 2013 £000s
Milton Cross School	(12,012)	167	(11,845)
Learning Disability Facilities	(4,230)	61	(4,169)
Highways Maintenance	(57,876)	451	(57,425)
Waste Disposal	(11,365)	583	(10,782)
	<u>(85,483)</u>	<u>1,262</u>	<u>(84,221)</u>

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.

	Repayments of Liability £000s	Interest £000s	Service Charges £000s	Total Revenue Commitment £000s	Life Cycle Replacement Costs £000s	Total Commitment £000s
Within 1 year	847	8,985	17,298	27,130	3,595	30,725
Within 2 to 5 years	6,917	35,076	73,398	115,390	13,369	128,759
Within 6 to 10 years	24,239	36,265	102,290	162,794	12,413	175,207
Within 11 to 15 years	24,446	23,596	96,335	144,376	24,152	168,528
Within 16 to 20 years	27,312	4,884	34,495	66,691	3,201	69,892
Within 21 to 25 years	460	8	-	468	-	468
	<u>84,221</u>	<u>108,813</u>	<u>323,816</u>	<u>516,849</u>	<u>56,729</u>	<u>573,580</u>

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40. TERMINATION BENEFITS

The council terminated the contracts of a number of employees in 2012/13, incurring liabilities of £2.3m (£4.1m in 2011/12).

41. LIABILITY RELATING TO DEFINED BENEFIT PENSION SCHEME

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 a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The council participates in three post employment schemes:

The Local Government Pension Scheme (LGPS) administered locally 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 42.

The Pilots National Pension Fund (PNPF) - this is a centralised multi-employer 'defined benefit' pension scheme for non-associated employers.

The Trustee of the PNPF has previously sought clarification from the High Court on the Trustee's powers under the Rules of the PNPF. Until the status of the PNPF had been clarified, the council was unable to determine its share of the liabilities. Following the court's determination and further information being made available on the extent of the PNPF's liabilities, the council is now able to determine its share of the liabilities in the PNPF for the first time. The PNPF will therefore be accounted for on a 'defined benefit' basis in the year ended 31 March 2013.

Transactions Relating to Post-employment Benefits

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

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	Funded Liabilities: Local Government Pension Scheme		Funded Liabilities: Pilots National Pension Fund		Unfunded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Teachers' Additional Benefits	
	2011/12 £000s	2012/13 £000s	2011/12 £000s	2012/13 £000s	2011/12 £000s	2012/13 £000s	2011/12 £000s	2012/13 £000s
Comprehensive Income and Expenditure Statement:								
Cost of services								
Current service cost	14,890	16,650	-	-	-	-	-	-
Past service cost	1,410	1,050	-	-	-	-	-	-
Settlements and Curtailments	-	-	-	-	-	-	-	-
Financing and Investment Income and Expenditure								
Interest cost	33,740	33,330	-	-	620	550	430	370
Expected return on assets	(27,240)	(25,840)	-	-	-	-	-	-
Total Post Employment Benefit charged to the Surplus of deficit on the Provision of services	22,800	25,190	-	-	620	550	430	370
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement								
Acturial (gains) and losses	59,020	17,960	-	1,676	910	1,990	500	470
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	81,820	43,150	-	1,676	1,530	2,540	930	840
Movement in Reserves Statement								
Reversal of net charges made to the surplus or deficit for the Provision of Services for post employment benefits in accordance with the Code	(22,800)	(25,190)	-	-	(620)	(550)	(430)	(370)
Actual amount charged against the General Fund and Housing Revenue Account Balances in accordance with the Code								
Employers' contributions payable to scheme	18,660	17,849	-	15	-	-	-	-
Retirement benefits payable to pensioners	-	-	-	-	930	962	659	601
	18,660	17,849	-	15	930	962	659	601

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The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31st March 2012/13 is a loss of £186.9m.

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

Assets and Liabilities in relation to retirement benefits

	Funded Liabilities Local Government Pension Scheme		Funded Liabilities Pilots National Pension Fund		Unfunded Liabilities Local Government Pension Scheme		Unfunded Liabilities Teachers' Additional Benefits	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Opening balance at 1st April	(625,150)	(708,530)	-		(11,733)	(12,333)	(8,041)	(8,312)
Current service cost	(14,890)	(16,650)	-		-	-	-	-
Interest cost	(33,740)	(33,330)	-		(620)	(550)	(430)	(370)
Contributions by scheme participants	(5,750)	(5,650)	-		-	-	-	-
Actuarial gains and losses	(50,240)	(53,330)	-	(3,766)	(910)	(1,990)	(500)	(470)
Benefits paid	22,650	21,900	-		930	962	659	601
Past service costs	(1,410)	(1,050)	-		-	-	-	-
Curtailments	-	-	-		-	-	-	-
Settlements	-	-	-		-	-	-	-
Closing balance at 31st March	(708,530)	(796,640)	-	(3,766)	(12,333)	(13,911)	(8,312)	(8,551)

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

	Local Government Pension Scheme		Pilots National Pension Fund	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Opening balance at 1st April	387,108	407,328	-	-
Expected rate of return	27,240	25,840	-	-
Actuarial gains and losses	(8,780)	35,370	-	2,090
Employers contributions	18,660	17,849	-	15
Contributions by scheme participants	5,750	5,650	-	-
Benefits paid	(22,650)	(21,900)	-	-
Settlements	-	-	-	-
Closing balance at 31st March	407,328	470,137	-	2,105

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments on 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 £61.2m for the LGPS (2011/12: £18.5m). There was no actual return in the year on scheme assets for the PNPf (2011/12: no actual return). This is because for accounting purposes, the PNPf was deemed to be reclassified as a defined benefit scheme at the end of the year; hence its assets and liabilities came into existence on 31 March 2013.

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Present value of funded liabilities (LGPS):	(480,561)	(677,100)	(625,150)	(708,530)	(796,640)
Present value of funded liabilities (PNPF Scheme):	-	-	-	-	(3,766)
Present value of unfunded liabilities (LGPS and Teachers):	(20,283)	(22,796)	(19,774)	(20,645)	(22,462)
Fair value of assets (LGPS):	268,703	361,649	387,108	407,328	470,137
Fair value of assets (PNPF):	-	-	-	-	2,105
Surplus/(deficit) in the scheme:	(232,141)	(338,247)	(257,816)	(321,847)	(350,626)

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Scheme history

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £350.6m 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 by the council in the year to 31 March 2014 is £17.5m for the LGPS and £1.1m for the PNPf.

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, estimates for the council fund being based on the latest valuation of the LGPS as at 31 March 2010 and the latest valuation of the PNPf as at 31 December 2010 (calculations updated to 31 March 2013 by Aon Hewitt Limited).

The principal assumptions used by the actuary have been:

	Funded	Funded	Funded	Funded	Unfunded	Unfunded	Unfunded	Unfunded
	LGPS	LGPS	PNPF	PNPF	LGPS	LGPS	Teachers	Teachers
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
Long-term expected rate of return on assets in the scheme:								
Equity investments	8.1%	7.8%	N/A	7.5%	N/A	N/A	N/A	N/A
Bonds	3.1%	2.8%	N/A	3.9%	N/A	N/A	N/A	N/A
Other	5.6%	3.6%	N/A	5.5%	N/A	N/A	N/A	N/A
Mortality assumptions:								
Longevity at 65 for current pensioners:								
Men	23.9	24	N/A	22.8	23.9	24.0	23.9	24.0
Women	24.9	25	N/A	25.2	24.9	25.9	24.9	25.0
Longevity at 65 for future pensioners:								
Men	25.6	25.7	N/A	24.6	-	-	-	-
Women	26.8	26.9	N/A	27.1	-	-	-	-
Rate of inflation	2.5%	2.7%	N/A	2.6%	2.4%	2.6%	2.4%	2.6%
Rate of increase in salaries	5.0%	4.6%	N/A	4.0%	0.0%	0.0%	0.0%	0.0%
Rate of increase in pensions	2.5%	2.7%	N/A	2.6%	2.4%	2.6%	2.4%	2.6%
Rate for discounting scheme liabilities	4.7%	4.4%	N/A	4.1%	4.6%	4.1%	4.6%	4.1%

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The LGPS's and PNPf's assets consist of the following categories, by proportion of total assets held:

	LGPS		PNPF	
	2011/12	2012/13	2011/12	2012/13
	%	%	%	%
Equity Investments	55.1	57.6	0	22.9
Bonds	28.5	26.2	0	58.5
Other assets	16.4	16.2	0	18.6
	100.0	100.0	0.0	100.0

Commutation: LGPS

31 March 2013	31 March 2012
Each member assumed to exchange 25% of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for additional lump sum.	Each member assumed to exchange 25% of the maximum amount permitted of their pre 1 April 2010 pension rights on retirement, for additional lump sum.
Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum.	Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension rights on retirement, for additional lump sum.

Commutation: PNPf

It is assumed that 90% of members will take the maximum cash lump sum available upon retirement.

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History of Experience of Gains and Losses

The actual gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008/09	2009/10	2010/11	2011/12	2012/13
	%	%	%	%	%
LGPS:					
Differences between the expected and actual return on assets	-33.8	20.5	-1.2	-2.2	7.5
Experience gains and losses on liabilities	-0.4	0.8	0.5	-0.7	0.1
PNPF:					
Differences between the expected and actual return on assets	N/A	N/A	N/A	N/A	N/A
Experience gains and losses on liabilities	N/A	N/A	N/A	N/A	N/A

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.

42. 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 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 2012/13, the council paid £6.9m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £6.9m and 14.1%. There were contributions of £0.6m outstanding at 31 March 2013.

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 41.

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43. LONG TERM DEBTORS

2011/12	2012/13
£'000s	£'000s
17,321 Finance Lease Debtors	16,203
26 Mortgages - HRA	19
6,592 Mortgages - General Fund	6,769
2,381 Capital Advances to MMD (Shipping Services) Ltd	3,095
<u>26,320</u>	<u>26,086</u>

44. OTHER LONG TERM LIABILITIES

2011/12	2012/13
£000	£000
(15,079) Assets transferred from Hampshire County Council	(14,308)
(4,527) Finance Leases	(3,814)
(84,221) Service Concessions (including PFIs)	(83,374)
(2,956) Other	(2,809)
<u>(106,783)</u>	<u>(104,305)</u>

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45. HERITAGE ASSETS: FIVE – YEAR SUMMARY OF TRANSACTIONS

	Heritage Assets 2008-09 £000	Heritage Assets 2009-10 £000	Heritage Assets 2010-11 £000	Heritage Assets 2011-12 £000	Heritage Assets 2012-13 £000
Cost or Valuation					
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	30,391	29,857	29,962	29,950	30,366
Sculptures	154	1,540	1,540	1,540	1,540
	46,685	47,537	47,642	47,630	48,273
Additions / Donations	0	0	0	0	0
Disposals	0	0	0	0	0
Revaluations:					
Historic Buildings	(534)	(27)	(12)	365	(53)
Sculptures	1,386				
Reclassifications:					
Memorials				226	94
Historic Buildings		132		52	488
At 31st March	47,537	47,642	47,630	48,273	48,802
Depreciation at 1st April					
Historic Buildings	(532)	(13)	(3)	(6)	(16)
Charge in Year:					
Historic Buildings	(19)	(13)	(15)	(10)	(7)
Revaluations:					
Historic Buildings	538	23	12	0	0
At 31st March	(13)	(3)	(6)	(16)	(23)
Impairment at 1st April					
Historic Buildings		(148)	(292)	(323)	(312)
Charge in Year:					
Historic Buildings	(148)	(144)	(31)	11	(435)
Memorials					(94)
At 31st March	(148)	(292)	(323)	(312)	(841)
Net Book Value					
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
At 1st April	46,153	47,376	47,347	47,301	47,945
Net Book Value					
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	406	406
Historic Buildings	29,696	29,667	29,621	30,038	30,031
Sculptures	1,540	1,540	1,540	1,540	1,540
At 31st March	47,376	47,347	47,301	47,945	47,938

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46. 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 parlor, 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.

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Charles Dickens Birthplace contains furniture, ceramics, glass, household objects and decorations which faithfully recreate the Regency style which Charles' 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 the 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

47. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Head of Finance and Section 151 Officer on 30 June 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following event which took place after 31 March 2013 as it provides information that is relevant to an understanding of the council's financial position but does not relate to conditions at that date.

When the new arrangements for the retention of business rates come into effect on 1 April 2013, local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over (to Central Government) in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the authorities, but would have been transferred to the Department for Communities and Local Government.

The Council's share of the total estimated reduction in National Non Domestic Rates income attributable to appeals as at 1 April 2013 is estimated as £7.3m over the period of 2013/14 to 2017/18. Of this figure, £6.0m represents pre 1 April 2013 reductions and £1.3m are estimated future appeals. Under regulations, the Council is permitted to spread the financial effect of pre 1 April 2013 reductions over five years.

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48. TRUST FUNDS

Portsmouth City Council acts as sole or custodian trustee for four trust funds, and as one of several trustees for a further forty one funds. In neither case do the funds represent assets of the Council and therefore they have not been included in the balance sheet. The Trust funds are involved in charitable activities within Portsmouth and have investments in gilt-edged and equity securities.

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<u>FUNDS FOR WHICH PORTSMOUTH CITY COUNCIL ACTS AS SOLE OR CUSTODIAN TRUSTEE</u>				
	<u>Income</u>	<u>Expenditure</u>	<u>Assets</u>	<u>Liabilities</u>
	£'000	£'000	£'000	£'000
<u>Miss A G Burges Bequest</u>	10	13	117	0
a registered charity established in 1979 for the research and care of mental and physical handicap in children.				
<u>The Whitcombe Charitable Trust Fund</u>	1	2	9	0
a registered charity established in 1892 to provide annuities for poor persons.				
<u>The Zurich Insurance Travelling Scholarship</u>	1	40	15	0
a registered charity established in 1978 to further the language training of Portsmouth pupils.				
<u>The Scale Charitable Trust Fund</u>	4	4	20	0
a registered charity established in 1901 to provide annuities to blind persons.				
<u>Sub total</u>	17	59	161	0

<u>OTHER FUNDS:</u>				
	<u>Income</u>	<u>Expenditure</u>	<u>Assets</u>	<u>Liabilities</u>
	£	£	£	£
<u>Alderman Joe Davidson Memorial Charity Trust</u>	42	49	761	15
<u>The Lord Mayor of Portsmouth's Charity</u>	16	16	50	0
<u>The Montagu Neville Durnford and Saint Leo Cawthran Memorial Trust</u>	14	11	220	0
<u>Elementary Education Act Properties held pending charitable scheme</u>				
Settlement Buckland Youth Activity Centre	1	0	232	0
New Road Centre	29	0	574	0
Omega Street Centre	73	61	468	0
Craneswater Centre	0	7	15	0
Cottage Grove	3	0	273	0
Cumberland Annexe	6	0	564	0
John Pounds Centre	0	0	368	0
Fernhurst Annexe	0	0	23	0
Penhale Annexe	0	0	963	0
Manor House Nursery	8	4	78	0
Goldsmith Infant School	3	0	6	0
Cumberland Lodge	0	0	171	0
Stamshaw Infant School	3	8	3	0
<u>Others</u>	26	79	247	0
Total	224	236	5,015	15

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49. 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 compulsory redundancies (compulsory and voluntary redundancies in 2011/12)*		(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 (£)	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
£0-£20,000	241	48	12	75	253	123	£1,441,010	£793,763
£20,001 - £40,000	42	4	5	12	47	16	£1,280,253	£449,652
£40,001 - £60,000	8	1	3	7	11	8	£557,253	£372,898
£60,001 - £80,000	8	0	0	4	8	4	£560,033	£282,655
£80,001 - £100,000	0	0	0	0	0	0	£0	£0
£100,000 - £150,000	1	0	0	2	1	2	£102,533	£229,892
£150,001 - £200,000	1	0	0	1	1	1	£153,432	£155,960
Total cost included in bandings	301	53	20	101	321	154	£4,094,514	£2,284,820
Add: Amounts provided for in CIES not included in bandings							0	0
Total cost included in CIES							£4,094,514	£2,284,820

For 2012/13, compulsory redundancies are shown in column (b) and voluntary redundancies in column (c). It is not possible to distinguish between these categories of redundancy in 2011/12, therefore both compulsory and voluntary redundancies are shown in column (b) for 2011/12.

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50 EXCEPTIONAL ITEMS

There were no exceptional items in 2012/13.

The Council was required to pay the Government a self financing payment of £88.6 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.

51. 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.

MMD (Shipping Services) Limited

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.

The Council owns 100% of the shares in MMD which are carried in the Council's balance sheet under long term investments at their net worth of £4.5m.

The Council also has £0.6m lodged with Lloyds TSB to secure banking facilities for MMD. These funds may not be returned if MMD defaults on its obligations to Lloyds TSB.

Three loans totalling £3.1m have been advanced to MMD by the Council. These loans carry interest at 4.81% per annum and mature in 2029, 2030 and 2031.

The Council's exposure to losses arising from its ownership of MMD is therefore limited to £8.2m, ie. the value of its shares in the company, the funds lodged with Lloyds TSB and the outstanding capital loans advanced to MMD.

The City Council sold £2.4m (£2.3m in 2011/12) of goods and services to MMD during 2012/13. In addition the Council received £0.3m (£0.4m in 2011/12) of pilotage income through MMD.

Portsmouth City Council has paid revenue grants totalling £2.2m in 2012/13 (£1.2m in 2011/12) to MMD.

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

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The expenditure and income of the MMD (Shipping Services) Ltd is as follows:

2011/12	2012/13
£000	£000
15,520 Gross Expenditure	15,695
(16,008) Gross Income	(15,700)
(488) Net Expenditure	(5)

As the net expenditure and income of MMD is not significant in comparison with the rest of the group consisting of the City Council it is felt that group accounts would not add to users understanding of the financial affairs of the City Council or its group.

52. LOSS ON DISPOSAL OF NON CURRENT ASSETS

The loss on the disposal of non current assets has arisen through the transfer of Paulsgrove Primary School valued at £6.5m to an academy trust on a long lease at a pepper corn rent, and a £4m loss on the sale of the sites of the former Saxon Shore and Westfield Schools which were found to have drainage and asbestos issues.

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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.

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2011/12 £000	Income	Note	2012/13 £000
(68,078)	Council tax	1	(68,377)
(14,480)	Transfers from General Fund – Council Tax Benefit		(14,199)
0	Community charge		0
0	Council Tax credits written back		0
(52)	Council Tax write ons		(21)
(76,635)	Income from business ratepayers	2	(80,230)
	Contributions received towards estimated (deficit)		
	Council tax - Hampshire Police Authority		(32)
	Council tax - Hampshire Fire & Rescue Authority		(14)
	Council tax - Portsmouth CC General Fund		(254)
(159,245)			(163,127)
	Expenditure		
	Precepts		
8,763	Hampshire Police Authority		8,763
3,678	Hampshire Fire and Rescue Authority		3,677
68,849	Portsmouth City Council		68,851
81,290	Business rates		81,291
75,926	Contribution to national pool		79,273
282	Cost of collection		280
6	Interest paid on overpayments		3
	Bad and doubtful debts		
270	Amounts written off - Council Tax	1	563
722	Provision - Council tax	1	651
218	Amounts written off - NNDR	1	454
203	Provision - NNDR	1	220
	Contributions towards estimated surplus		
172	Council tax - Hampshire Police Authority		-
72	Council tax - Hampshire Fire and Rescue Authority		-
1,355	Council tax - Portsmouth CC General Fund		-
160,516			162,735
1,271	(Surplus)/Deficit for year		(392)
159,245			163,127
(852)	(Surplus)/Deficit b/fwd at 1st April		419
1,271	(Surplus)/Deficit for year		(392)
419	Fund balance at 31st March - (Surplus)/Deficit	3	27

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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	19,145	6/9	12,763
B	24,513	7/9	19,066
C	18,449	8/9	16,399
D	5,080	9/9	5,080
E	3,031	11/9	3,705
F	1,467	13/9	2,119
G	589	15/9	982
H	22	18/9	43
	72,296		60,157
Less: adjustment for non-collection			(902)
Add: MoD dwellings contribution			661
2012/13 tax base			59,916

Multiplying the 2012/13 tax base of 59,916.1 to the standard council tax of £1,356.75, gives the total precepts on the Collection Fund of £81,291,000.

The following Authorities precepts are shown below:

2011/12 £000		2012/13 £000
68,849	Portsmouth City Council	68,851
8,763	Hampshire Police Authority	8,763
3,678	Hampshire Fire and Rescue Authority	3,677
81,290		81,291

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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 based on a standard amount per head of population. This sum received is paid into the Council's General Fund. A balance will be due either to the Government or the Council at 31 March, which is settled in the following financial year.

The total non-domestic rateable value at 31st March 2013 was £204.5m. The non-domestic multiplier for the year was 45.0p for small business and 45.8p for other non-domestic properties. The gross yield for the year was £90.5m and the net 2012/13 yield was £80.2m.

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 £22,840 the Police Authority's is £2,907 and the Fire and Rescue Authority's is £1,220. The precepting Authorities' aggregate shares of council tax assets and liabilities are included within Debtors in the Balance Sheet.

4. Business Rate Retention

In 2012/13 all national non-domestic rates were paid into a national pool administered by the Government. From 1 April 2013 50% of business rates will be retained by the City Council subject to caps and floors.

When the new arrangements for the retention of business rates come into effect on 1 April 2013, local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over (to Central Government) in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the authorities, but would have been transferred to the Department for Communities and Local Government.

The Council's share of the total estimated reduction in National Non Domestic Rates income attributable to appeals as at 1 April 2013 is estimated as £7.3m over the period of 2013/14 to 2017/18. Of this figure, £6.0m represents pre 1 April 2013 reductions and £1.3m are estimated future appeals. Under regulations, the Council is permitted to spread the financial effect of pre 1 April 2013 reductions over five years.

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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.

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2011/12 £000	Expenditure	2012/13 £000
22,185	Repairs & Maintenance Supervision & Management	23,862
10,107	General	11,393
11,066	Special Services	10,932
1,399	Rent rates taxes & other charges	1,445
(64)	Subsidy limitation transfer to the general fund	-
-	Transitional Measures Transfers to the GF	-
4,323	Negative HRA Subsidy payable	222
	Depreciation (and Impairments) of Non-current Assets:	
11,940	- Dwellings	7,158
1,846	- Other Assets	1,283
-	Amortisation of deferred charges and intangible assets	134
84	Debt management costs	47
170	Movement in allowance for bad debts	429
88,619	Sums directed by the secretary of state *	32
151,675	Total Expenditure	56,937
	Income	
(56,574)	Dwelling rents (gross)	(58,788)
(1,976)	Non-dwelling rents	(2,352)
(6,977)	Service charges (Tenants charges for services)	(7,813)
(65,526)	Gross rents	(68,953)
(987)	Leaseholders charges for services & facilities	(1,322)
(640)	Other Charges for Services & Facilities	(720)
(1,535)	Contributions toward expenditure HRA Subsidy Receivable	(1,461)
	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	
(68,689)	Total Income	(72,456)
82,985	Net Cost of HRA Services as included in the CIES	(15,519)
132	HRA's share of corporate & democratic core	124
	HRA share of other amounts included in the whole Authority Net Cost of Services but not allocated to specific services	
83,117	Net cost of HRA Services	(15,395)
	HRA share of operating income & expenditure included in the CIES	
(700)	(Gain) or loss on the sale of HRA non-current assets	(882)
2,867	Interest payable & similar charges	6,959
(505)	Interest and investment income	(308)
505	Pensions interest cost and expected return on pensions assets	807
(22)	Income, expenditure changes in the fair value of investment	(8)
(2,974)	Capital grants and contributions receivable	(2,648)
82,290	Surplus / Deficit for the year on HRA services	(11,475)

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*2012/13 was the first year of HRA Self Financing. Under HRA Self Financing the Council paid £88.6m to the Government at the end of 2011/12 and in return the Government abolished the HRA Subsidy system under which most local authorities has a negative entitlement and were obliged to pay subsidy to the Government.

MOVEMENT ON THE HRA STATEMENT

2011/12 £000	Movement on the HRA Statement	2012/13	
		£000	£000
(9,617)	Balance on the HRA at the end of the previous year		(10,682)
82,290	(Surplus) or deficit for the year on the HRA Income & expenditure account	(11,476)	
(86,855)	Adjustments between accounting basis & funding basis under statute	10,795	
(4,565)	Net (Increase) or decrease before transfers to or from reserves	(681)	
3,500	Transfers to / from reserves	2,872	
(1,065)	Increase / decrease in HRA in year		2,191
(10,682)	Balance on the HRA at the end of the current year		(8,491)

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.

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NOTE TO THE MOVEMENT ON HRA STATEMENT

2011/12 £000		2012/13 £000
82,290	Increase/decrease in the Housing Revenue Account Balance comprising : (Surplus) / Deficit for the year on the HRA Income and Expenditure Account	(11,476)
-	Repayment of Debt	2,954
68	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the SORP and those determined in accordance with statute	115
-	Revenue expenditure funded from capital under statute	(31)
-	Capital grants and contributions credited to CIES	2,648
700	Gain or (loss) on sale of HRA Non-current Assets	882
1,451	Reverse actual pension costs	1,480
(1,231)	Current Service Costs	(1,794)
(505)	HRA share of pension interest costs and expected return on pension assets	(807)
-	Capital expenditure funded by the Housing Revenue Account	-
(376)	Impairment	5,360
(1,355)	Transfer to (from) Major Repairs Reserve	(139)
(85,645)	Transfer for Capital Adjustment Account	-
22	Changes in the Fair Value of investment properties	-
3,500	Transfers to/from RCCO	2,872
17	Accumulating Compensated Absence (Accrued Holiday Pay) 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	127
-		-
(1,065)	(Increase) / Decrease in the Housing Revenue Account Balance	2,190
(9,617)	Housing Revenue Account surplus brought forward	(10,682)
(10,682)	Housing Revenue Account surplus carried forward	(8,491)

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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, 1.15% of lettable dwellings were vacant. In 2011/12 the figure was 0.83%. Average rents were £74.99 per week in 2012/13, an increase of £2.90 over the previous year.

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

<u>Analysis of Gross Rent:</u>	2011/12 £000	2012/13 £000
Dwelling Rents	(56,574)	(58,788)
Non-dwelling Rents		
- mobile homes	(170)	(185)
- garages	(1,093)	(1,255)
- shops	(565)	(764)
- land	(147)	(147)
Service charges		
- sheltered housing	(2,251)	(2,271)
- general service charge	(4,160)	(4,895)
- heating	(566)	(647)
	(65,526)	(68,952)

The gross rent income is based on the number of days in the year - i.e. in 2012/13, 365 days.

Council House Tenant Arrears

During the year, rent arrears as a proportion of gross rent income have increased to 5.5%. The figures are as follows:

<u>Analysis of Arrears:</u>	2011/12	2012/13
Rent Arrears as a proportion of gross rent	5.12%	5.53%
	£000	£000
Arrears - current tenants	2,202	2,489
- former tenants	1,156	1,310
Shops & Land	14	13
Net arrears at 31st March	3,372	3,812

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Housing rents written off during the year totalled £0.2m.

The increase in the housing rents bad debt provision charged to the Housing Revenue Account in 2012/13 was £0.5m (£0.2m in 2011/12).

The movements in the housing rents bad debt provision in the year were:

HRA Tenants Bad Debts provision	HRA £000
Balance at 1st April 2012	(2,761)
- less: write offs in 2012/13	224
- add: provision 2012/13	(502)
Balance at 31st March 2013	(3,039)

HRA Subsidy Payable

The HRA subsidy payable is broken down as follows:	2011/12 £000	2012/13 £000
Management and maintenance	(31,060)	0
Major Repairs Allowance	(12,055)	0
Charges for capital	(4,830)	0
Rent	52,222	0
Interest on receipts	1	0
ASBO Allowance	-	-
Prior year adjustment	45	222
	4,323	222

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.

Contributions towards expenditure:	2011/12 £000	2012/13 £000
Supporting People grant - Tenancy support	(410)	(389)
Supporting People grant - Sheltered housing	(737)	(702)
Wardens charges to Social Services	(230)	(198)
Sale of Electricity	(158)	(172)
	(1,535)	(1,461)

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Other Income

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

Other income received:	2011/12 £000	2012/13 £000
Leaseholders charges for services and facilities	(987)	(1,322)
Contribution for collection of council tax on behalf of Portsmouth Council Tax account & Havant Borough Council	(106)	(105)
Other charges for services & facilities	(535)	(615)
Reduction in bad debt provisions	-	-
	(1,628)	(2,042)

Depreciation of non-current assets

The depreciation charge is broken down as follows:

Depreciation charge:	2011/12 £000	2012/13 £000
Council houses	12,055	12,518
Other land and buildings	275	304
Plant and equipment	880	759
Infrastructure	132	131
Intangible	77	134
	13,419	13,846

Impairment

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

Impairment Charge:	2011/12 £000	2012/13 £000
Council Houses	(115)	(5,361)
Other Assets	491	81
	376	(5,280)

Interest Income

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

Interest income:	2011/12 £000	2012/13 £000
Interest from mortgages given for sold council houses and flats	(1)	(0)
Interest on Cash Balances for the year	(355)	(308)
Interest receivable on leased out assets	(149)	(0)
	(505)	(308)

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IAS 19 - Accounting for pensions

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 £2.9m was made during the year from revenue surpluses.

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

There is no statutory requirement for the HRA to provide for the repayment of its debt. On 28 March 2012 the HRA was required to make a self financing payment to the Government of £88.6m. The Council's policy is to provide for the repayment of this debt over 30 years in line with the HRA Business Plan. The HRA will continue its practice of not providing for its other debts.

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	2012/13 Total £000	2011/12 Total £000
Balance at 1st April 2012	-	(9,338)	-	-	-	(9,338)	(15,017)
Transferred from HRA	-	(12,518)	(1,328)	-	-	(13,846)	(13,410)
Transferred to HRA	-	-	-	-	-	-	1,355
Financing of capital expenditure	-	13,080	-	-	-	13,080	17,734
Balance at 31st March 2013	-	(8,776)	(1,328)	-	-	(10,104)	(9,338)

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Housing stock

The Council was responsible for managing an average of 15,181 dwellings (excluding mobile homes) during 2012/13. The stock as defined by the Housing Revenue Account Subsidy regulations at 31st March was as follows:

Housing Stock:	Number of dwellings	
	2011/12	2012/13
Houses	4,574	4,566
Flats	10,610	10,612
	15,184	15,178
Mobile homes	117	117
	15,301	15,295

The change in stock can be summarised as follows:

Change in Stock	No. of Dwellings	
	2011/12	2012/13
Stock at 1st April	15,278	15,301
Less - Sales	(20)	(43)
Bed sit conversion	(2)	(1)
Demolished	(2)	(6)
Add - repurchases	2	3
Change of Use	2	0
Pinnacle properties	25	0
Bed sit conversion	11	0
New build	7	39
Leased Dwellings	0	2
Stock at 31st March	15,301	15,295

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	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net book value at 1st April 2012	428,476	16,472	3,264	289	68	75	6,997	517	456,158
Transfers into HRA		398							398
Depreciation during the year	(12,518)	(304)	(759)	(131)				(134)	(13,846)
Adjustment Impairment during the year	5,361	(89)					8		5,280
Additions							18,528		18,528
Disposals	(1,541)								(1,541)
Transfers between categories	17,330	756	354			69	(18,076)	103	536
Revaluations	0	721	1						722
Net book value at 31st March 2013	437,108	17,954	2,860	158	68	144	7,457	486	466,235

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Vacant possession value of dwellings within the HRA

The vacant possession value of dwellings held within the HRA amounts to £1,365m at 31st March 2013.

The substantial difference between this figure and the net book value figure of £437m 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			Deferred charges		Total
	Non current assets			Other property	Grants	
	Land	Houses	Other property			
£'000	£'000	£'000	£'000	£'000	£'000	
Projects		4,060				4,060
HRA Assets (Non Dwelling)			1,558		32	1,590
Major Repairs Specific Contracts (Dwellings)		2,074	247			2,321
Major Repairs Dwellings		10,588				10,588
	0	16,722	1,805	0	32	18,559

	Financing			Deferred charges		Total
	Non current assets			Other property	Grants	
	Land	Houses	Other property			
£'000	£'000	£'000	£'000	£'000	£'000	
Borrowing		613				613
SRB						0
Usable capital receipts		252				252
Revenue contributions						0
Major Repairs Reserve		11,104	1,805		32	12,941
Grants and contributions		4,753				4,753
	0	16,722	1,805	0	32	18,559

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Analysis of Capital Receipts

Capital receipts from property sales (houses, flats and land sales) during the year totalled £2.4m (£1.5m in 2011/12). Total capital receipts are analysed below:

Capital Receipts:	2011/12 £000	2012/13 £000
Land Sales	140	0
Sale of Council Houses and flats	1,331	2,421
Sale of non dwellings	0	0
Capital receipts from property sales	1,471	2,421
- less: Administration costs	0	0
	1,471	2,421
Sale of Council Houses - Principal mortgage repayments	9	6
Refund discounts	0	0
Total HRA capital receipts	1,480	2,427

Exceptional items and prior period adjustments.

There were no exceptional items or prior period adjustments posted in 2012/13.

Summary of Bad Debt Provision as per the Balance Sheet

Bad Debt Provision:	1st April 2012 £000	Additions and reductions £000	Write-offs £000	31st March 2013 £000
Housing rents provision	(2,761)	(502)	224	(3,039)
Sale of flats provision	(78)	(69)	-	(147)
Other Housing rents	(7)	(3)	1	(9)
Other HRA Bad Debt provisions	(2)	-	1	(1)
Housing Benefit provision	-	-	-	-
	(2,848)	(574)	226	(3,196)

The overall Housing Revenue Account provision for bad debts has been increased during the year by £349k.

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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

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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 asset 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.

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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 costs 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.

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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.

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Non-Current Assets

Assets that are not expected to be realised within a year.

Non-Distributed Costs

These are overheads for which no user now benefits and as such are not apportioned to services.

National Non-Domestic Rates (“NNDR”)

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.

Agenda Item 8



Portsmouth
CITY COUNCIL

Agenda item:

Title of meeting: The Governance and Audit & Standards Committee

Date of meeting: 26 September 2013

Subject: Update on the council's compliance with its Equality Duty and Equality Impact Assessment Process

Report by: City Solicitor

Wards affected: All

Key decision: No

Full Council decision: No

1. Purpose of report

1.1. To update the Committee on the compliance of council services with the Equality Duty and the Equality Impact Assessment process since the last report dated 27th June 2013.

2. Recommendations

2.1. That the Committee notes the contents of the report;

2.2. That the Committee continues to monitor the compliance of the council services with the Equality Duty and the Equality Impact Assessment process adopted by the Council, on a quarterly basis.

2.3. That the City Solicitor continues to report on such compliance to the Committee on a quarterly basis.

3. Update on the Council's compliance with the Equality Duty and the Equality Impact Assessment (EIA) process

3.1. Background

3.1.1. The Equality Act 2010 introduced the Public Sector Equality Duty requiring the council to consider the impact of its policies, strategies, projects and services on people with any of the nine 'protected characteristics': These are age, race,

disability, sex, gender reassignment, sexual orientation, religion, pregnancy and maternity, marriage or civil partnership.

3.1.2. Non-compliance can lead to costly, time-consuming and reputation-damaging legal challenge by individuals or pressure groups.

3.1.3. The council has a well-established Equality Impact Assessment process which assists compliance with the Public Sector Equality Duty.

3.2. Table showing compliance of individual services with the Equality Impact Assessment process

The table below shows the individual services' compliance with the council's 3 yearly rolling EIA process as at 16th September 2013. This process sets deadlines for EIAs to be completed on the major services, policies, and functions of the council that have been identified by the management and the Equality & diversity team as having a potential present or future disproportionately negative impact on people possessing any of the 'protected characteristics'. All major completed non-exempt EIAs are published on the equality pages of the council website. Other EIAs are available on request from the Equality & diversity team.

The table does not take account of the additional EIAs being undertaken on other proposed new or changed projects, policies, services and strategies that are placed before relevant decision-makers. These are monitored by the Equality & diversity team regularly through the Future Work Programme. Council services are overall pro-active in planning for equality analysis as part of their project processes and / or contacting the Equality & diversity team for advice and support. The issue is often around quality of the EIAs produced. The Equality & diversity team however works with individual officers on their better understanding of the Equality Duty and improvements in quality of their EIAs. Officers are usually cooperative and implement the team's advice.

The table below illustrates that the majority of the services continue to be 100% compliant. Adult Social Care has significantly improved its compliance with the EIA process and are now 100% compliant. Transport & Environment Services have provided us with an updated list of the major service areas that require EIAs and have proposed timescales for their completion. Yet, the service has already fallen behind the deadlines agreed by them and have 60% outstanding EIAs (that's 9 of 15 EIAs on the list). Children's Social Services now have one outstanding EIA, making them 88% complaint. The Equality & diversity team is

working with these services to ensure that these EIAs are completed without further delay.

Directorate	Service	Compliance
Public Health	Health, Safety & Licensing	100% - no change
People Services	Education & Strategic Commissioning	100% - no change
	Children's Social Care and Safeguarding	88% (1 of 9 EIAs outstanding) - down from 100%
	Adult Social Care	100% - up from 62%
	Revenues and Benefits	100% - no change
Regeneration	City Development & Cultural Services	100% - no change
	Corporate Assets, Business & Standards	100% - no change
	Transport & Environment	40% (9 of 15 EIAs outstanding)
	Housing & Property Services	100% - no change
Performance / Support Services	Information Services	100% - no change
	Finance	100% - no change
	HR, Legal & Performance	100% - no change
	Customer, Community & Democratic Services	100% - no change

6. Reasons for recommendations

- 6.1.** To ensure that the Council complies with its legal obligations under the Equality law.

7. Equality impact assessment (EIA)

- 7.1.** This report does not require an Equality Impact Assessment as it does not propose any new or changed services, policies or strategies.

8. Head of legal services, comments

- 8.1.** Legal advice and the effect of non-compliance are set out in this report.

9. Head of finance's comments

9.1. There are no financial implications arising from the recommendations in this report.

.....
Signed by:

Appendices: Nil

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Nil	

.....
Signed by:

Agenda Item 9

THIS ITEM IS FOR INFORMATION ONLY



Portsmouth
CITY COUNCIL

Agenda item:

Title of meeting: Governance and Audit & Standard Committee
Subject: Revision to Equality & Diversity Strategy 2014 - 17
Date of meeting: 26 September 2013
Report by: Head of Customer, Community & Democratic Services
Wards affected: All

1. Requested by

Chair of the Governance and Audit & Standards Committee

2. Purpose

- To inform the Committee about a planned revision of the current Equality & Diversity Strategy, and
- Outline the approach that will be applied to consultation and engagement with our staff, residents and key partners, which will assist us with developing a refreshed strategy.

3. Information Requested

Portsmouth City Council's Equality & Diversity Strategy 2010-13 will expire at the end of this year. Equality & Diversity Team are therefore working on producing a refreshed version of the strategy for years 2014-17. The purpose of the revised strategy will be to set out the council's approach to equality and diversity issues in Portsmouth in the context of its current policy, as well as legislative changes that the council is required to conform to. The council has legal duties under the Equalities and Human Rights legislation to eliminate unlawful discrimination, and to take account of needs of our staff, residents and visitors in our day-to-day work with respect to their age, gender, disability, race, religion or belief, sexual orientation, transgender, pregnancy and maternity, and marriage and civil partnership.

The revised strategy will also take on feedback from the recent LGA Peer review and relevant guidance from DCLG and Cabinet Office.

The predominant aim is to continue and build on the good work the council has been doing around identifying and tackling discrimination and disadvantage experienced by our

residents, visitors and staff, not only with relation to access to our public services but also in the wider socio-economic context.

Proposed content of the revised strategy

a) Foreword

A foreword will explain the purpose of the strategy and briefly set out the council's approach to equality & diversity, which will be elaborated upon in the main text of the document. The text of the foreword will be subject to approval by the Leader and/or Chief Executive.

b) Context

The Strategy will provide policy context and refer to the previous strategy. It will also link to other strategies of the council and set out our statutory duties relating to equality and diversity.

Key concepts and terms will be explained.

c) Priorities & Principles

The Strategy will outline the council's commitment to equality & diversity, and key priorities and principles that the council will focus on in the next three years. These priorities and principles will be identified by working with our Heads of Service and equality leads for each service area, as well through consultation with our staff, residents and key partners.

The Strategy will also refer to the Single Equality Scheme Plan 2010-13 and detail the progress the council has made against the priorities in the previous strategy.

d) Diversity of Portsmouth

Current 'Diversity of Portsmouth' document is being updated and improved. It will provide an up-to-date picture of demographics in Portsmouth, highlighting its diversity, needs of different communities, as well as gaps in information. The document will provide a basis for setting our priorities and an action plan that will support it.

The refreshed Diversity of Portsmouth will present key facts and figures using pictures, to form an Infographic. This Infographic will be the main page of the document, which will allow people to navigate to particular areas of interest for more information.

The document will serve as a useful one-stop source of information about the make-up of Portsmouth's population and its rich diversity. Staff can utilise it for the purpose of completing Equality Impact Assessments and gaining a better understanding of our

customers. Residents, visitors and partners can refer to it in order to gain knowledge about the local area and its peoples.

e) Equality & Diversity Team

This section will explain the role of the team and the Equality Impact Assessment process.

f) Action Plan

The Priorities that the revised strategy will be based upon will be supported by an Action Plan that will detail how these Priorities will be achieved. The Plan will set out key activities that the council, at the strategic level, as well as individual services will be responsible for. These activities will be identified through consultation with Heads of Service and service equality leads, as well as our staff and residents.

The Equality & Diversity Team will undertake annual reviews of the Action Plan, identifying progress and gaps through a use of a scorecard and examples of where we are making a difference.

Engagement Plan

The table below outlines our proposed approach to consultation on the revised Equality & Diversity Strategy 2014 - 17.

The Equality & Diversity Team is planning to engage with the council staff, our residents and key partners, using a number of methods, over the coming weeks, and to ask their support with shaping of our refreshed strategy.

Preparatory work for the consultation exercise is underway and the Team has begun its efforts to engage with our communities.

Engagement Plan - Equality & Diversity Strategy Refresh

Things we have done so far	September	October	November	December
<ul style="list-style-type: none"> • Invitation to provide email or telephone feedback published on PCC web and 'Equality & diversity in Portsmouth' blog • Email to equality groups • Team presence at Community Days in Commercial Rd. and Cosham • Invitation to provide email or telephone feedback published in the Voluntary and community sector newsletter 	Communications and correspondence outlining process and timescale	3 Group sessions	1 Group session	2 nd Dec - Cabinet meeting - decision on draft strategy
	Email to Heads of Service and service equality leads asking for feedback and ideas on action plan implementing equality priorities	Invite equality groups to set up individual sessions	Collate consultation results	3 rd Dec - launch of the strategy
	Email to key partners (see below)	Presence at Black History Month Event on 13 th October	7 th November - GA&S Committee meeting - report on draft strategy	
	10 th September - GA&S Committee Briefing - oral update	Disabled-Go Steering Group meeting		
	26 th September - GA&S Committee meeting - written report for information	Viewpoint Event for staff and members of public		
	PowerPoint presentation - key messages and equality priorities in the current strategy & consultation	Survey		
	<p>Partner organisations: University of Portsmouth, Hampshire Constabulary, Hampshire Fire & Rescue, NHS & Public Health, Colleges, PDF (Portsmouth Disability Forum), Pompey Pensioners, Friendship Centre, and other equality groups.</p> <p>Additional Formats: Large print, Podcast, Braille, Blog</p>			

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Signed by (Head of Service)

Appendices: Nil

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Nil	

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Agenda item:

Decision maker: Governance & Audit & Standards Committee

Subject: Compliance with the Gifts and Hospitality Protocol

Report by: City Solicitor

Wards affected: All

Key decision (over £250k): No

1. Purpose of report

To update members on any issues regarding compliance with the Gifts and Hospitality protocol and to advise on remedies.

2. Recommendations

That the report be noted and Members consider an increase in the current level up to which gifts may be accepted, currently £25.

3. Background

The Protocol for Gifts & Hospitality was approved by the Standards Committee on 12 September 2007 subject to a six month review on the 31 March 2008.

The protocol and "Frequently Asked Questions" were subsequently approved by the Standards Committee on the 31st March 2008.

The protocol requires an annual report by the Monitoring Officer on compliance to enable this committee to make any necessary recommendations for change - this report addresses that requirement.

4. Protocol compliance

A number of analyses of the entries in the Gifts & Hospitality system are contained in Appendix 1 to support the following assessments of protocol compliance. The number of entries for the period covered by this report (18th February 2011 to 28th August 2013) is 541.

The protocol is also attached to this report as Appendix 2.

The main requirements of the protocol are as follows -

- A. Gifts which may be accepted under the protocol must be under £25 in value (£5 for staff in Adult Social Care) and given without ulterior motive. There should not be any danger of misinterpretation by the public and they must not have become a frequent occurrence.
- a) There are a number of entries where the value exceeds the limits outlined above and these are dealt with specifically below.
 - b) All other entries have been approved by Heads of Service and meet the requirements of the protocol.
- B. Gifts which must not be accepted include - those where the value exceeds £25 (£5 for Adult Social Care), gifts of cash (this has been interpreted to also include vouchers), gifts from persons with whom the council is in contract negotiations (or could be) and those where we regulate or monitor services.
- a) As mentioned above there are a number of entries where the value exceeds £25 (or £5 for Adult Social Care) and there are also a number of entries of cash, or vouchers. These are dealt with separately below.
 - b) There do not appear to be any other entries that do not adhere to the general principals contained in the protocol.
- C. Hospitality – the principals for acceptance generally follow those in respect of gifts.
- a) All entries have been appropriately recorded and actioned (approved or rejected) by the Head of Service.
- D. Analysis of entries where the value has exceeded £25 (Appendix 1, page 8)
- a) Of the 75 accepted entries where the value exceeds £25 –
 - i) 38 are for offers of hospitality
 - ii) 8 are for study trips, part of staff development
 - iii) 4 were donated to charity
 - iv) The remaining 25 were aggregated items, 5 of which were accepted on behalf of a service rather than being accepted in a personal capacity. 16 of the entries related to staff representing Portsmouth City Council in the Great South Run and Caen 10km Road Race.
- E. As regards Adult Social Care where the limit is set at £5, the details are as follows (Appendix1, page 6)
- a) 34 entries in total
 - b) 23 of the 34 relate to entries under £5
 - c) The remaining 11 which exceed £5 can be analysed as follows
 - i) Onward donation – 4
 - ii) Accepted on behalf of service rather than in a personal capacity – 5
 - iii) Retained by recipient or shared with colleagues - 3
- F. Cash and vouchers

- a) An analysis of the system entries for cash or vouchers is contained in Appendix 1, page 5.
- b) Total value where the amount has been specified is – cash £50.00 and vouchers £180.00
 - i) Cash
 - (1) Donated to Lord Mayor charity – £20.00
 - (2) Donated to other charity - £15.00
 - (3) Retained - £15.00
 - ii) Vouchers
 - (1) Donated to Lord Mayor charity - £35.00
 - (2) Retained - £120.00
 - (3) Rejected – Unknown as amount not specified

In light of the number of hospitality events attended by staff, which have had a value in excess of the current limit, £25.00 that have been appropriate and approved by Head of Service, Members may decide that it is timely to review the limit currently in place for accepting gifts and hospitality. This limit has been in place for some time now.

There were two gifts entered in the register, which were accepted by the receiver but not approved by the Head of Service. One receiver has since left PCC and the other accepted the gift on behalf of a service.

5. Equality impact assessment (EIA)

This is a report on the operation of the protocol; an EIA is not therefore relevant.

6. Head of finance's comments

Not relevant to this report.

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Signed by:

Appendices:

Appendix 1 – various analyses of entries in the Gifts & Hospitality system
 Appendix 2 – Protocol for staff on Gifts & Hospitality, Bequests and Sponsorship

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Data report form Gifts & Hospitality system	Held by System Administrator

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....
 Signed by:

Analysis of system entries by Head of Service (18 February 2011 – 28 August 2013)

SD	HoS	2011 - 2013
David Williams	Julian Wooster	1
	Kathy Wadsworth	23
	Margaret Geary	4
	Michael Lawther	30
David Williams Total		58
Julian Wooster	Di Mitchell	6
	Jon Bell	26
	Stephen Kitchman	23
Julian Wooster Total		55
Kathy Wadsworth	Alan Cufley	32
	John Slater	2
	Simon Moon	46
	Stephen Baily	41
Kathy Wadsworth Total		121
Margaret Geary	Ed Woodhouse	11
	Louise Wilders	25
	Owen Buckwell	108
	Robert Watt	34
Margaret Geary Total		178
Michael Lawther	Chris Ward	46
	David Williams	7
	Kay White	17
	Mel Burns	24
	Rachael Dalby	22
	Suki Binjal	4
	Tony Nicholas	9
Michael Lawther Total		129
Grand Total		541

Notes:

1. Analysis is by current Head of Service (actions in year would be by HoS in post at that time)
2. SD's as Heads of Service are in respect of actions on entries by Heads of Service as HoS cannot self-approve.
3. Actions by Michael Lawther include entries for staff at the Port

Analysis by Head of Service to show Accepted / Donated / Rejected

SD	HoS	Accepted	Donated	Rejected	Grand Total
David Williams	Julian Wooster	1	0	0	1
	Kathy Wadsworth	18	0	5	23
	Margaret Geary	4	0	0	4
	Michael Lawther	14	1	15	30
David Williams Total		37	1	20	58
Julian Wooster	Di Mitchell	6	0	0	6
	Jon Bell	9	1	16	26
	Stephen Kitchman	23	0	0	23
Julian Wooster Total		38	1	16	55
Kathy Wadsworth	Alan Cufley	30	0	2	32
	John Slater	2	0	0	2
	Simon Moon	33	2	11	46
	Stephen Baily	39	1	1	41
Kathy Wadsworth Total		104	3	14	121
Margaret Geary	Ed Woodhouse	11	0	0	11
	Louise Wilders	21	4	0	25
	Owen Buckwell	100	1	7	108
	Robert Watt	26	8	0	34
Margaret Geary Total		158	13	7	178
Michael Lawther	Chris Ward	45	0	1	46
	David Williams	6	0	1	7
	Kay White	2	0	15	17
	Mel Burns	23	0	1	24
	Rachael Dalby	20	2	0	22
	Suki Binjal	4	0	0	4
	Tony Nicholas	3	1	5	9
Michael Lawther Total		103	3	23	129
Grand Total		440	21	80	541

Items donated to Lord Mayor's Appeal

Count of Accepted/Rejected		Accepted/Rejected			Grand Total
HoS	Receiver	Accepted	Donated	Rejected	
Alan Cufley	Colin Walker	1	0	0	1
	Peter Mountford	0	1	0	1
Alan Cufley Total		1	1	0	2
Jon Bell	Nicola Waterman	0	1	0	1
Jon Bell Total		0	1	0	1
Louise Wilders	Peter Smith-Parkyn	0	2	0	2
	Claire Green	0	1	0	1
	Alison Herod	0	1	0	1
Louise Wilders Total		0	4	0	4
Margaret Geary	Paula Day	1	0	0	1
Margaret Geary Total		1	0	0	1
Michael Lawther	Phil Gadd	0	1	0	1
Michael Lawther Total		0	1	0	1
Rachael Dalby	Amanda McKenzie	1	0	0	1
	Uta Schmidtblaicher	0	2	0	2
Rachael Dalby Total		1	2	0	3
Robert Watt	Laura McMahon	0	1	0	1
	Caroline Broadbent	1	0	0	1
	Margaret Cox	0	1	0	1
	Zoe Ford	0	1	0	1
Robert Watt Total		1	3	0	4
Simon Moon	David Moorman	0	1	0	1
Simon Moon Total		0	1	0	1
Stephen Baily	Stephen Rees	1	0	0	1
	Heather Todd	1	0	0	1
	Michael Gunton	2	0	0	2
Stephen Baily Total		4	0	0	4
Tony Nicholas	Claire Ridout	0	1	0	1
Tony Nicholas Total		0	1	0	1
Grand Total		8	14	0	22

Notes:

1. Although entry may show as "Accepted", text in the "Description" or "Reason" field indicate that the item has been passed to the Lord Mayors Appeal.
2. Lord Mayor staff have been asked to verify that all items identified as donated to the appeal have been received (awaiting confirmation).

Donated to charity

	Alan Cufley	Di Mitchell	Jon Bell	Louise Wilders	Margaret Geary	Michael Lawther	Owen Buckwell	Rachel Dalby	Robert Watts	Simon Moon	Stephen Bailly	Tony Nicholas	Grand Total
Donated to													
Portsmouth Carers Centre									1				1
Service User Group									2				2
Stamshaw Children's Centre		1											1
Unknown									1	1			2
Wecock Church							1						1
Young Persons Support Team							1						1
Lord Mayor	2		1	4	1	1		3	4	1	4	1	22
Grand Total	2	1	1	4	1	1	2	3	8	2	4	1	30

Notes:

1. Of 30 entries shown as donated 22 were to the LM Appeal.
2. The remainder have been donated to various charities relating to their area of work as approved by managers.
3. It is unknown where one gift was donated to as the member of staff has since left PCC

Cash or Vouchers received.

<u>HoS</u>	<u>Receiver</u>	<u>Cash or Voucher</u>	<u>Value</u>	
Alan Cufley	Stephen Henwood	V	£50.00	Retained
	Stephen Hogan	V	£50.00	Retained
Di Mitchell	June Taylor	C	£10.00	Donated (Stamshaw Children's Centre)
Kathy Wadsworth	Stephen Bailey	V	Unknown	Rejected
Margaret Geary	Paula Day	C	£15.00	Retained
Owen Buckwell	Stephen Jackson	V	Unknown	Retained
	Allan Cox	V	Unknown	Retained
	Annette Kemp	V	Unknown	Rejected
	Rachel Fagan	C	£5.00	Donated (Wecock Church)
Rachael Dalby	Alan Knobel	V	£20.00	Retained
	Amanda McKenzie	V	£25.00	Donated (LM)
	Uta Schmidtlaicher	C	Unknown	Dontated (LM)
Robert Watt	Laura McMahan	V	£10.00	Donated (LM)
	Caroline Broadbent	V	£50.00	Donated (LM)
	Zoe Ford	V	Unknown	Donated (unknown)
Stephen Baily	Stephen Rees	C	£20.00	Donated (LM)
	Isobel Price	V	Unknown	Rejected
Summary		Cash	£50.00	
		Vouchers	£205.00	

Notes:

1. Total values do not include entries where exact value has not been specified
2. Amount not known – 7 entries
3. Recorded as 'donation to Lord Mayor's Appeal' – £105.00
Recorded as donation to other charity - £15.00

Analysis of Adult Social Care entries (restricted under Protocol to under £5)

Count of Year	Receiver	Approx Value				Grand Total	NOTES
		<£5	>£25	£5-£25	Null		
Robert Watt	Carole Knight	1				1	✓
	Caroline Broadbent			1		1	Donated to LM Appeal
		1				1	✓
	Caroline Foster	1				1	Donated to service user group
	Debbie Bates			1		1	Accepted on behalf of team
	Frances Reed	1				1	Shared with team
	Hannah Radice	1				1	Shared with team
	Heather Charley	1				1	✓
				1		1	Accepted on behalf of Vanguard Centre
					1	1	Accepted on behalf of Vanguard Centre
	Helen Bence	1				1	✓
	Janneke Klos			1		1	Shared with colleagues
	Jayne Gentle	10				10	✓
	Jon Brown	1				1	Shared with colleagues
	Julie Roberts	1				1	Shared with colleagues
	Karen Ellins	1				1	✓
	Kerry Lawrence	1				1	✓
	Laura McMahon				1	1	Donated to LM Appeal
	Margaret Cox			1		1	Donated to LM Appeal
	Marina Martin			1		1	Donated to service user group
	Melissa Daniells			1		1	General hospitality – not client gift
	Sarah Vance			1		1	✓
	Sue Galvin	1				1	✓
Yvonne Anthony	1				1	Gift donated	
Zoe Ford				1	1	Donated to LM Appeal	
Robert Watt Total		23	2	9		34	

Notes: ✓ = accepted by receiver and retained

Count of Year HoS	Approx Value			Null	Grand Total
	<£25	<£5	£5-£25		
Alan Cufley		11	15	6	32
Chris Ward		26	10	10	46
David Williams		0	2	5	7
Di Mitchell		2	2	2	6
Ed Woodhouse		6	4	1	11
John Slater		0	2	0	2
Jon Bell		5	17	4	26
Julian Wooster		1	0	0	1
Kathy Wadsworth		2	9	12	23
Kay White		3	9	5	17
Louise Wilders		3	16	6	25
Margaret Geary		3	1	0	4
Mel Burns		8	14	2	24
Michael Lawther		1	14	15	30
Owen Buckwell		66	34	8	108
Rachael Dalby		8	14	0	22
Robert Watt		24	8	3	35
Simon Moon		5	15	26	46
Stephen Baily		26	11	3	40
Stephen Kitchman		7	14	2	23
Suki Binjal		1	2	1	4
Tony Nicholas		3	5	1	9
Grand Total		211	218	112	541

Analysis by Head of Service to show Gifts & Hospitality over £25

		HoS	Total
Accepted	General Hospitality	Alan Cufley	4
		Chris Ward	3
		David Williams	4
		Jon Bell	1
		Kathy Wadsworth	10
		Louise Wilders	2
		Michael Lawther	4
		Owen Buckwell	1
		Simon Moon	8
		Suki Binjal	1
		Study Trips	Kathy Wadsworth
	Simon Moon		7
	Onwardly Donated	Louise Wilders	2
		Robert Watt	1
		Stephen Baily	1
	Aggregated items	Alan Cufley	2
		Chris Ward	6
		David Williams	1
		Di Mitchell	2
		Ed Woodhouse	1
		Louise Wilders	2
		Mel Burns	1
		Michael Lawther	1
		Owen Buckwell	2
		Simon Moon	1
		Rob Watts	2
		Stephen Baily	2
		Stephen Kitchman	2
	Accepted Total		75
	Grand Total		75

Of the 112 items over £25 in value

- 37 were "Rejected"
- 4 were recorded as donated to the Lord Mayor's Appeal
- Of the 25 aggregated items accepted, 5 of these were accepted on behalf of a service rather than as a personal gift, which was retained or donated
- The remaining "Accepted" entries were recorded as above.

An increase in gifts & hospitality above £25 was seen during 2012 & 2013 due to staff representing PCC in the Great South Run and Caen 10kms road race, which included race entry and for the latter event travel.

PROTOCOL FOR STAFF ON GIFTS, HOSPITALITY, BEQUESTS AND SPONSORSHIP

The public has the right to expect the highest standard of conduct from all Council staff and any departure from this standard would always be regarded as a serious matter.

One area where it is accepted that guidance is required to staff to ensure that their conduct meets public expectation is in relation to the receipt of gifts and hospitality.

Employees should not therefore accept gifts, hospitality, bequests or sponsorship in a personal capacity.

However, it is understood that in certain circumstances refusal may cause offence e.g. where the gifts are small tokens of thanks from appreciative members of the public

1. Decision to accept a gift or hospitality

You must obtain the consent of your Head of Service before accepting a gift or hospitality.

If you are in any doubt the gift or hospitality must be declined.

2. Gifts which may be accepted

- You may accept a gift if it is under £25¹ in value and:
 - no ulterior motive is apparent and
 - there is no danger of misinterpretation by the public (*e.g. because the gift comes from someone tendering for work or who is conducting business with the Council*) and such gifts have not become a frequent occurrence
- This includes small tokens of thanks from appreciative members of the public and promotional items such as pens, diaries, calendars, etc., that are routinely sent out by the various companies and organisations with which the council does business.

¹ Where a Member of Staff is employed in adult care the value of the gift, hospitality, bequest or sponsorship shall not exceed £5.

- If a gift over the value of £25 is offered it should not be accepted unless refusal would cause offence, in which case the gift must be donated to the Lord Mayor's Appeal raffle, e.g. a gift over £25 in value offered by a member of a visiting town twinning group.

3. Gifts which must not be accepted

- Gifts over £25 in value, subject to the exception above
- Gifts of cash
- Gifts from a person with whom the council may contract or is in contract negotiations
- Gifts from any person whose business the council may regulate e.g. through planning control or licensing control
- Gifts from a person where you may be required to formulate recommendations to the council, or you could influence the recommendations of others
- Gifts where you are monitoring the service provided by the person on behalf of the council

4. Hospitality

Hospitality cannot be accepted if it is offered to you in your personal capacity. It may be accepted if you are receiving hospitality on behalf of the council and you have the prior approval of your Head of Service or you are receiving meals as part of a Town Twinning event.

In all cases you should consider the impression that the acceptance of the hospitality will make in the minds of the public. In particular: -

- Is the hospitality offered in proportion or might there be a hidden motive?
- Has it been offered only to you or to others as well?
- Are they conducting business with the Council?
- Does or might the person offering it contract with the council or are they in contract negotiations?
- Is the hospitality offered by a person whose business the council may regulate e.g. through planning control or licensing control?
- Is the hospitality from a person where you may be required to formulate recommendations to the council, or you could influence the recommendations of others?
- Is the hospitality offered from someone where you are monitoring the service provided by the person on behalf of the council?
- If you have any doubt then you should decline the hospitality.

5. Bequests

You must actively discourage any bequest or donation being made to you and decline any of which you become aware. If you become aware that such a bequest or donation has been made, or may be made, you must tell the Monitoring Officer as soon as possible.

Wherever possible, the bequest or donation will be declined or returned to the estate of the person who made the bequest. If this is not possible, the bequest or donation will be given to the Lord Mayor's Appeal.

6. Sponsorship and financial support

Any offer of sponsorship or financial support to a member of staff will be treated in the same manner as a gift and should be declined unless approved by your Head of Service and may in any event only be for charitable purposes.

Where the council makes a financial contribution to an event or community group where you, or your relative, may obtain a benefit which is more than that which is generally received by other members of the public, you should declare an interest and take no further part in the development of the event.

7. All gifts and hospitality offered must be registered

Whether a gift or hospitality is **accepted** or **declined**, and whether it is over or under £25 in value, it is your personal responsibility to register it, the source of the gift or hospitality and the reason for it.

You must do so within seven days of receiving or declining it.

For staff registering items, access is via Intralink - click on Systems, Gifts & Hospitality Register (within Work environments) then Logon Links (Gifts & Hospitality Register)

The public register is to be found at <http://www.portsmouth.gov.uk> then by clicking on Your Council, Information, Gifts & hospitality register

If the gift or hospitality is accepted as part of the registration your Head of Service will be required to confirm that:-

- they approve of the acceptance of the gift or hospitality and
- this protocol has been complied with

8. Effect of registering a gift or hospitality

You automatically have a **personal interest** in a matter under consideration by the council if it is likely to affect a person who gave you a gift. If that is the case, you must, at the earliest opportunity, declare the existence and nature of the gift or hospitality, the person who gave it to you, how the business under consideration relates to that person and then take no further involvement in the council's consideration of the matter.

9. Annual report on compliance and review of policy

The Monitoring Officer will report annually to the Standards Committee on compliance with this protocol.

The Standards Committee will review compliance with the policy annually and make recommendations to the council arising from its implementation.

Dated September 2007



Agenda item:

Decision maker: Governance & Audit & Standards Committee

Subject: Audit Performance Status Report to 30th August 2013 for Audit Plan 2013/14

Date of decision: 26 September 2013

Report by: Chief Internal Auditor

Wards affected All

Key decision (over £250k) No

1. Summary

- 1.1 There are 2 new critical exceptions highlighted in this report for 2013/14 Audit Plan and two from the 2012/13 Audit Plan.
- 1.2 There are 156 planned Audits for 2013/14 made up of 130 new reviews and 26 follow up audits. Of these 50 (32%) have been completed or are in progress as at 30th August 2013. This represents 23 audits (15%) where the report has been finalised, 5 audits (3%) where the report is in draft form and 22 audits (14%) currently in progress.
- 1.3 In addition to the planned audits there are 12 areas of on-going work and 5 of continuous audits which contribute to risk assurance.
- 1.4 Areas of Assurance are shown in Appendix A.
- 1.5 128 days of reactive work have been undertaken to 30th August 2013, with 245 days set aside in the 2013/14 Audit Plan.

2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2013/14 to 30th August 2013 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

3. Background

- 3.1 The Annual Audit Plan for 2013/14 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 24 January 2013 following consultation with Heads of Services, Strategic Directors and the Chair of this Committee.

4. Recommendations

- 4.1 That Members note the Audit Performance for 2013/14 to 30th August 2013.

4.2 That Members note the highlighted areas of control weakness for the 2013/14 Audit Plan.

5. Audit Plan Status 2013/14 to 30th August 2013

Percentage of approved plan completed

5.1 32% of the annual audit plan has been completed or is in progress as at 30th August 2013, the same as the equivalent period last year. Appendix A shows the completed audits for 2013/14. This percentage is made up as follows;

- 20 new reviews (13%) where the report is finalised, 5 (3%) in draft form and 20 (13%) currently in progress.
- 3 planned follow ups (2%) where the report is finalised and 2 (1%) currently in progress.

5.2 As requested by Members of the Committee a breakdown of the assurance levels on completed audits is contained in Appendix A.

Reactive Work

5.3 245 days have been allowed for reactive work and investigations in 2013/14 and 128 days have been used to 30th August 2013.

5.4 The 128 reactive days were used for:

- 10 special investigations
- 22 items of advice

As well as the following unplanned reviews:

- DECC LA Fuel Poverty Grant
- Troubled Families Grant
- Energy & Climate Change Grant
- Pilots National Pension Fund verification of contributions

Exceptions

5.5 Of the programmed reviews completed so far this year the number of exceptions in each category have been:

- 2 Critical
- 58 High Risk
- 9 Medium Risk
- 2 Low Risk (improvements)

5.6 The table below is a comparison of the audit status figures, up to August 2013 for this financial year and the previous two years.

	2011/2012	2012/2013	2013/14
% of the audit plan progressed	29%	32%	32%
No. of Critical exceptions	0	3	2
No. of High risk exceptions	35	16	58*
No. of reactive days	228	162	128

*32 of the high risk exceptions relate to Schools where full review programmes are being carried out in 2013/14 that were not carried out in the previous two years.

On-going Areas

- 5.7 The following 12 areas are on-going areas of audit work;
- Regulation of Investigatory Powers Act (RIPA)- authorisations and training
 - Anti-Money Laundering review of Policy and training
 - Investigations (included in the 245 days of reactive work)
 - Financial Rules, review, waivers, training
 - National Fraud Initiative (NFI) to facilitate national data matching carried out by the Audit Commission
 - Internal Data Matching of the Council's own data
 - National Anti-Fraud Network (NAFN) bulletins and intelligence follow up
 - Counter Fraud Programme
 - Policy Hub project to ensure that all Council policies are held in one place and staff are notified of the policies relevant to them
 - G&A&S Committee reporting and attendance and Governance, Audit Planning and Consultation
 - Risk Management

Continuous Audit Areas

- 5.8 The following 5 areas are subject to continuous audit (i.e. regular check to controls) and feed into overall assurance ;
- Legionella Management
 - Asbestos Management
 - Key risks management in services
 - Performance Management
 - Business Continuity/Emergency Planning

6. Areas of Concern

Concerns identified since the last meeting

- 6.1 There are two new areas of concern (critical exceptions) highlighted in finalised reports to services since the previous status report to this Committee from this year's Audit Plan. There are also two from last year where actions have now been agreed, they have not been included in the number of critical exceptions for this year but have been added to last year's figure.

6.2 Purchase Cards

6.2.1 The Purchase Card audit raised two critical exceptions relating to breaches of the Purchase Card Policy and Procedures; non-compliance with HMRC VAT Regulations and breaches of Financial Rules.

6.2.2 The first critical exception has arisen because of the number of high risks from the review. These include inter alia

- VAT not being reclaimed on purchases from large companies in some instances. The total amount of VAT not reclaimed, although not material from the small sample reviewed, establishes a principle that could become significant over time and volume of transactions.
- Conversely for some transactions VAT had been reclaimed but without a VAT receipt or invoice to support them. Again the sums involved as part of the small sample tested were not material but could lead to challenge from HMRC and fines.
- One member of staff in the sample tested left PCC in November 2012, however, they were still showing as active on the current purchase card list as at 23 July 2013.
- One purchase card holder had made purchases from eBay in breach of Financial Rules.

6.2.3 There is a concern that when an audit review was undertaken in 2011/12 on purchase card usage there were no major exceptions. Since then however, the challenge control has been weakened and has resulted in several high risk exceptions and therefore a no assurance audit opinion.

6.2.4 The second critical exception related to a specific service that had been tested in further detail because of the number of breaches of purchase card rules which were high risk and included;

- Occasions where no supporting VAT invoices were submitted.
- Transactions where VAT was claimed but there was no supporting VAT invoice.
- An entry on the purchase card log was different to the amount from the invoice.
- A delivery note was supplied instead of a VAT invoice.
- A payment to a catering supplier where VAT able items had not been identified and it is unclear if VAT had been claimed.

6.3 Agreed Actions

6.3.1 Exception one; an email is to be sent to purchase cardholders and managers to remind them of their responsibilities by the Accounts Payable Team Leader.

6.3.2 Exception two; Breaches of Financial Rules are to be discussed with the relevant member of staff by their Head of Service to ensure VAT is administered correctly for future purchases and that if purchases are required to be made from eBay a Financial Rule Waiver will be sought in advance of the purchase.

6.4 Northern Quarter Development

- 6.4.1 The Northern Quarter Development project originated in the 1990's and consultants were appointed at that time to advise and deliver on development agreements and compulsory purchase orders. The two critical exceptions relate to the fact that:
- (1) There is no evidence to support how the consultants were procured and whether or not Procurement Rules and EU Regulations were followed. Failure to appoint Consultants in line with defined policies & procedures and contract law may leave the Authority open to challenge and potential fines & penalties and
 - (2) Subsequently no contracts for the consultants being used on the Northern Quarter Development have been seen. The only details that have been sighted are the consultants own terms & conditions. It is not known what PCC terms & conditions the consultants are working to and as to whether PCC is receiving the service it requires, to the standard required and that VFM is being achieved, although it is understood from the Project Director that they are satisfied with the contractor's performance.

6.5 Agreed Actions

- 6.5.1 To regularise the appointment by way of express terms and conditions of appointment, establishing a clear and full scope of appointment and to obtain appropriate waivers to the Contracts Procedures Rules, to allow a direct appointment.

7. Comments on Plan 2013/14 to date

- 7.1 Whilst only 2 critical exceptions have been identified to date for this financial year the number of high risk exceptions found has increased slightly since last year, even taking out the high risks relating to the Schools Audits.

8. Equality impact assessment (EIA)

- 8.1 The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

9. City Solicitor's Comments

- 9.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council's legal requirements and the Council is fully empowered to make the decisions in this matter.
- 9.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

10. Head of Finance & S151 Officer Comments:

- 10.1 There are no financial implications arising from the recommendations set out in this report.
- 10.2 The S151 Officer is content that the progress against the Annual Audit Plan and the agreed actions are sufficient to comply with his statutory obligations to ensure that the

Authority maintains an adequate and effective system of internal audit of its accounting records and its system of internal control.

.....
Signed by: Lyn Graham, Chief Internal Auditor

Appendices:

Appendix A – Completed audits from 2013/14 Audit Plan

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Accounts and Audit Regulations	http://www.legislation.gov.uk/uksi/2011/817/contents/made
2 Audit Strategy 2013/14	http://www.portsmouth.gov.uk/media/gas20130124r7appB.pdf
3 Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings – reports published online http://www.portsmouth.gov.uk/yourcouncil/10349.html

APPENDIX A

Service	Function	Auditor/ Progress	Exceptions				Assurance					Actions agreed	Summary of areas where no assurance can be given
			Critical	High	Medium	Low	Internal Control Environment	Compliance with Laws, Regs, Rules, Procedures and contract conditions	Safeguarding of assets	Effectiveness of ops	Reliability and Integrity		
Finance- Chris Ward	Controlled Stationery	FINAL		1			GREEN	GREEN	GREEN	AMBER		✓	Non compliance with procedures for the chasing of receipt memos to ensure stationery has been received
Housing and Property Management- Owen Buckwell	Cleaning contract	FINAL				1	GREEN	AMBER		GREEN		✓	Testing identified that on some passes held by the cleaners it was not possible to identify them.
Corporate Assets Business and Standards- Alan Cufley	Pest Control	FINAL	0	0	1	0	GREEN	GREEN	AMBER	GREEN		✓	Testing highlighted that there was not a current up to date inventory in place for the equipment used by Pest Control Operatives.
Adult Social Care- Rob Watt	Residential and Day Centres self assessments	FINAL	0	3	0	0	AMBER	AMBER	AMBER			✓	Testing highlighted at one day centre there is no log of who has keys to the building, purchase orders are being raised after invoices are received and lack of control over amenity funds.
Follow Ups	Client Affairs	FINAL	0	0	0	0	GREEN	GREEN				N/A	All exceptions closed
	Deferred Payments	FINAL	0	0	0	0	GREEN					N/A	All exceptions closed
HR, Legal and Performance- Jon Bell	DBS checks	FINAL					GREEN	GREEN		GREEN		N/A	No exceptions raised
Page 209 Education and strategic Commissioning- Di Mitchell	Purchase cards	FINAL	2	1	0	0	AMBER	RED		RED		✓	Testing highlighted that the Purchase card policy was out of date. Testing evidenced breaches of the Purchase Card Policy and procedures, HMRC VAT regulations and Financial Rule
	City Boys Secondary	FINAL		5	2		AMBER	AMBER	AMBER	GREEN	GREEN	✓	No compliance with Schools Financial Value Standards, data protection, lack of income spot checks, non compliance with financial rules for purchase cards and inventory.
	St Pauls RC Primary	FINAL		6			GREEN	AMBER	AMBER	GREEN	AMBER	✓	Non compliance with financial rules for income, purchase cards, inventory. Non compliance with the Scheme for Financing Schools in relation to voluntary funds
	Newbridge Junior	FINAL		1	1		GREEN	AMBER	GREEN	GREEN	AMBER	✓	The review highlighted a lack of current IT policy inclusive of principle 7 from the Data Protection Act. Non compliance with the Scheme for Financing Schools in relation to voluntary and private funds.
	Mayfield Secondary	FINAL		14	1		AMBER	AMBER	AMBER	GREEN	AMBER	✓	Non compliance with financial rules for petty cash, purchase cards, separation of duties in relation to income, purchase orders, quotations and inventory. Lack of MIDAS training and recording of odometers. Retention of CRB check againsts data protection act requirements. Non compliance with the Scheme for Financing Schools in relation to delegated spending limit and hire agreement forms

APPENDIX A

	College Park Infant	FINAL					GREEN	GREEN	GREEN	GREEN	GREEN	✓	No exceptions raised.	
	Medina Primary	FINAL		6	1		AMBER	AMBER	AMBER	GREEN	GREEN	✓	Non compliance with financial rules for petty cash, inventory, quotations and purchase cards. Lack of clarity in relation to budget monitoring and controls in relations to the odometer readings of the mini buses	
Children's Social Care and Safeguarding- Stephen Kitchman	Youth Offending Team												Testing identified that staff are not fully aware of National Standards timeframes, completion of asset assessments and contact being made is not always in compliance with National Standards timeframes, scoring of young people during assessments did not always clearly link to their risk of reoffending, intervention plan targets are not generally meeting SMART criteria and do not always link to the highest scoring risks and assessments and intervention targets are not always	
		FINAL	0	6	0	0	AMBER	AMBER		AMBER			being reviewed in a timely manner	
Page 210	National Policy for Community Orders (Recruitment of YOT	FINAL	0	1	0	0	GREEN	AMBER	GREEN	GREEN		✓	Testing highlighted that the recruitment process had not been adhered too.	
	Looked after children Issues Resolution Process	FINAL	0	0	0	1	GREEN	GREEN		GREEN		✓	Testing highlighted that not all notifications were being recorded in the same place.	
	HR Safer recruitment Childrens Services	FINAL	0	3	0	0	AMBER	AMBER		GREEN		✓	Testing hilghited a lack of Safter Recruitment training, recruiemnt checks are not carried out	
	PACT -Protection of Court Teams quality of paperwork													Testing hilghited that legal documentation was still not being sent withing the time frame, however changes have been made to the process which are now in place and training will be delivered in
		FINAL	0	2	0	0	GREEN	GREEN	AMBER	GREEN		✓	October 2013	
Customer, Community and Democratic Services- Louise Wilder	Registrars	FINAL		1			AMBER	GREEN	GREEN	GREEN	GREEN	✓	Testing highlighted that staff had not completed mandatory training or signed the cash handling instructions	
City Development and Cultural Services - Stephen Baily	Programme/ Project management	FINAL	0	5	2	0	AMBER	AMBER	GREEN	GREEN		✓	Testing highlighted non compliance with Corporate Projects Methodology. i.e. no project assurance roles. Non compliance with	
Transport and Environment- Simon Moon	Public Transport retender	FINAL	0	0	0	0		GREEN				N/A	No exceptions raised	
	Hire Cars	FINAL	0	3	1	0	AMBER	GREEN	GREEN	AMBER		✓	The review highlighted lack of checks on driving licences and hire car request forms, a lack of system to record mileage, damage and fuel consumption. No requirement for a business need for the hire is required. Lack of seperation of duties when confirming invoices	

Agenda Item 12



Portsmouth
CITY COUNCIL

Agenda item:

Title of meeting: Governance & Audit & Standards
Date of meeting: 26th September 2013
Subject: Audit Charter & Code of Ethics
Report by: Lyn Graham, Chief Internal Auditor
Wards affected: None
Key decision: No
Full Council decision: No

1. Purpose of report

- 1.1 The purpose of the report is to gain Members' approval for the revised Portsmouth City Council's Internal Audit Charter to ensure that it complies with the new Standards and Code of Ethics following the introduction of the "Public Sector Internal Audit Standards" by the Institute of Internal Auditors.

2. Recommendations

- 2.1 Members approve the revised Internal Audit Charter & Code of Ethics.

3. Background

- 3.1 On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted by the 'Relevant Internal Audit Standards Setters' which include; HM Treasury in respect of Central Government; the Department of Health in respect of the Health Sector in England; and the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of Local Government across the UK.
- 3.2 The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. All requirements within the standards are covered in the attached Internal Audit Charter & Code of Ethics, Appendix A.
- 3.3 The PSIAS define the nature of internal auditing and sets out basic principles for carrying out internal audit activities. Its overall objective is in establishing a

framework for Internal Audit which adds value to organisation and improves its processes and operations.

3.4 The Internal Audit Charter has been revised to include the changes between the CIPFA Code of Practice and PSIAS requirements.

4. Reasons for recommendations

4.1 The Internal Audit Charter and Code of Ethics attached include all of the requirements of PSIAS including all mandatory requirements.

5. Equality impact assessment (EIA)

5.1 The Internal Audit Charter and Code of Ethics are not subject to an equalities impact assessment.

6. Legal Comments

6.1 There are no legal implications arising directly from this report

7. Finance Comments

7.1 The content of this report does not have any financial implications.

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Signed by: Lyn Graham, Chief Internal Auditor

Appendices:

Appendix A – Internal Audit Charter & Code of Ethics

Background list of documents:

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Public Sector Internal Audit Standards.	http://www.iaa.org.uk/media/110148/public_sector_internal_audit_standards.pdf

.....
Signed by:

Portsmouth City Council - Internal Audit Charter & Code of Ethics Draft September 2013

Introduction

1. On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The requirements of the Standards are covered in this Internal Audit Charter & Code of Ethics.

Authority

2. The Accounts and Audit Regulations, define the requirement for an internal audit function within Local Government stating that:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Definition of Internal Auditing

3. In accordance with the PSIAS the definition of Internal auditing is

"An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

4. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.
5. The Internal Audit Section will consider the adequacy and effectiveness of the internal control framework detailed below which aid in supporting the achievement of the Authority's strategic objectives.
 - Internal control environment;
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations and programmes;
 - Safeguarding of assets; and
 - Compliance with laws, regulations and rules, policies, procedures and contracts.

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Purpose and scope

6. The Internal Audit Section at Portsmouth City Council will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control. It will also provide advice and consultancy services at the specific request of the Authority, with the aim of improving governance, risk management and control whilst contributing to the overall Annual Opinion.
7. The Annual Internal Audit Opinion must incorporate;
 - The Opinion;
 - A summary of the work that supports the Opinion; and
 - A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.
8. The Internal Audit Section will not be restricted to the audit of financial systems and controls but will cover all operational and management controls. There are therefore no scope limitations, in that all of the Authority's activities fall within the remit of the Internal Audit Section; however consideration will always be given to the competency, qualification and experience of those auditors tasked with carrying out the individual assignments. For example Internal Audit will not make judgements or evaluations on care or academic assessments; equally it is not in Internal Audit's remit to give an opinion on the appropriateness of policy decisions.
9. Consultancy activities (i.e. advice, facilitation and training) will be considered based on their potential to improve the management of risks and the Authority's operations.
10. Special reviews may be conducted at the request of Members, Strategic Directors and the s151 Officer. The Internal Audit Section may also conduct investigations as requested by the Investigation Steering Group - ISP (consisting of the Monitoring Officer, s151 Officer, Head of HR, Legal and Performance and the Chief Internal Auditor or her deputy), provided such reviews (special or investigation) do not compromise its objectivity or independence.
11. The impact on the Audit Plan must be assessed and, if necessary, the Plan reprioritised by the Chief Internal Auditor. Any significant changes must be reported to the Corporate Governance Group (consisting of the Chief Executive, Monitoring Officer, s151 Officer, Head of HR, Legal and Performance and the Chief Internal Auditor) as well as the Members of the Governance & Audit & Standards Committee (the Board) in their next reporting cycle.

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12. Fraud prevention and detection is the responsibility of managers. However if Internal Audit detects any suspected irregularities during the course of their activities they will report them to ISP. The Chief Internal Auditor may review the system for control weaknesses but any investigation will be under the direction of ISP.

Organisational Independence

13. The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It may however provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.
14. The Chief Internal Auditor will be free from interference (although have due regard for the Authority's key objectives and risks and consult with Members and Officers charged with governance) when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
15. Internal Audit is supported by the Authority and its independence is seen as key to providing Portsmouth City Council with an effective service.
16. The Internal Audit Section will have free and unfettered access to the s151 Officer, Chief Executive, Monitoring Officer the Leader of the Council and the Chair of the Governance and Audit and Standards Committee.

Responsibilities of Individual officers

Chief Internal Auditor

17. The Chief Internal Auditor must ensure that:
 - (1) They identify the overall remit of audit activity
 - (2) They carry out an audit needs risk assessment and prioritise the results into an annual plan in consultation with the s151 Officer, Strategic Directors, Heads of Services and Chair of Governance and Audit and Standards Committee
 - (3) The Internal Audit resources are appropriate and sufficient i.e. in skills and knowledge and are effectively deployed to achieve the approved annual audit plan. Any inadequacies will be raised with the s151 Officer, Head of HR, Legal and Performance and the Governance and Audit and Standards committee.
 - (4) There are adequate policies and procedures in place to guide the Internal Audit activities and in accordance with PSIAS.

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- (5) The Internal Audit Section complies with the PSIAS and Code of Ethics at all times.
- (6) They periodically review the Internal Audit Charter and Audit Strategy for adequacy and effectiveness.
- (7) Constructive working relationships are fostered and encouraged between auditors, auditees, managers, and external auditors.
- (8) The Internal Audit Section maximises the use of technology for an effective service delivery.
- (9) Confidentiality is maintained at all times.
- (10) Individual auditors do not audit activities for which they previously had responsibility within the last 12 months.
- (11) They take all reasonable measures to ensure that all individual auditors have an objective frame of mind and be in a sufficiently independent position to be able to exercise judgement with impartiality.
- (12) A follow-up process to monitor and ensure that management actions have been effectively implemented is undertaken promptly.
- (13) Where management has accepted a level of risk that may be unacceptable to the Authority, that the matter is discussed with the s151 Officer/ Strategic Director/ Chief Executive as relevant, or escalated to the Governance and Audit and Standards Committee to resolve.
- (14) They continuously review the quality, effectiveness and provision of the Internal Audit Section.
- (15) Access to assignment records is controlled and only released in accordance with Freedom of information and Data Protection Act requirements.
- (16) All records relating to Internal Audit activities are retained for the required period and in line with the Authority's guidelines.
- (17) Assist the Governance and Audit and Standards Committee with their agenda and attend each meeting.

Individual Auditors

18. All individual auditors must ensure that they:

- (1) Maintain an impartial and unbiased attitude and avoid any conflict of interest.
- (2) Will refrain from assessing any activity to which they were previously responsible within the last twelve months, although they may provide consulting services.
- (3) Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
- (4) Exercise due professional care at all times.
- (5) Assist management in establishing or improving risk management processes, without managing those risks.
- (6) Give adequate notice of the start of a planned audit

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- (7) Develop and document a plan of each assignment detailing its objectives, scope and any limitations, timing and resource allocations.
- (8) Consider the objectives, risks, effectiveness of the control framework, value for money obtained, of the activity under review, when planning and setting the objectives of each assignment.
- (9) Develop and document a programme of works that achieves the assignments objectives.
- (10) Document sufficient information on their identification, analysis and evaluation of risks and controls within the area of audit activities, i.e. that the evidence is reliable, factual and adequate.
- (11) Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion, risk rating, recommendations (where relevant) and proposed action plans.
- (12) Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
- (13) Agree a plan of action with the Service to remedy control weaknesses
- (14) Comply with the Audit Manual and PSIAS.
- (15) Maintain professional independence, objectivity, integrity and confidentiality
- (16) Inform the Chief Internal Auditor of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity
- (17) Maintain proper documented files supporting conclusions
- (18) Hold in safe custody any documents or property or other material obtained for audit use or investigation
- (19) Act with due care to provide "reasonable" assurance on the adequacy of control
- (20) Foster good working relationships with auditees, external auditors and managers

S151 Officer

19. The s151 Officer has the authority to ensure that the provision of the Internal Audit Section is sufficient to meet his s151 requirements, although the day to day management is carried out by the Head of HR, Legal and Performance.
20. The s151 Officer must ensure that:
 - (1) Any suspected irregularities are properly and appropriately investigated and action taken
 - (2) S/he is satisfied that the Annual Audit Opinion assurance statement either on its own or as part of the Annual Governance Statement, reflects accurately the position of the control framework

Head of HR, Legal and Performance

21. The Head of HR, Legal and Performance must ensure that:
 - (1) The Internal Audit Section and the Authority comply with their responsibilities as detailed within this Charter and Code of Ethics and Standards.

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- (2) The Internal Audit Section is properly resourced and is effective.
- (3) The Audit performance as detailed in the KPI's is achieved.

Members

22. The Members as the corporate body have the responsibility to ensure that there is a current and effective internal audit function. These responsibilities are delegated to the Governance & Audit & Standards Committee and include ensuring that:
 - (1) The function complies with PSIAS.
 - (2) The Internal Audit Section's status is sufficient within the organisation, is independent organisationally and in its reporting and is free to set its priorities.
 - (3) There is a strategy and annual plans focused on the risk and control framework.
 - (4) The Internal Audit Section is properly and sufficiently resourced to give effective coverage.
 - (5) Significant weaknesses identified by audit are addressed.
 - (6) Agreed actions are implemented.

Auditees

23. In accordance with Financial Rules Managers must ensure that:
 - (1) They maintain a constructive approach to Internal Audit
 - (2) They make available employees, documents, computerised systems and information in a timely manner to allow the audit to progress within agreed timescales
 - (3) They respond promptly and formally to audit reports within the agreed timescale
 - (4) They implement agreed actions and within an agreed timed action plan.

External Auditors

24. The Internal Audit Section is expected to co-operate and regularly liaise with the external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.
25. The external auditors have a responsibility to assess whether Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

Reporting Structure

26. On an annual basis the Chief Internal Auditor will present for review and approval any changes to the Internal Audit Charter and Code of Ethics, the Internal Audit Strategy and the annual audit plan of activities, including resource requirements and any perceived deficiencies to the Governance & Audit & Standards Committee, following consultation with the Chief Executive Officer, Strategic Directors, Heads of Service and relevant members.

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27. An update on progress and performance to plan will be presented at each Governance & Audit & Standards Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.
28. Where critical risks, or a significant number of high risks are identified as part of an audit review, (i.e. those control weaknesses that could have a significant impact on the achievement of the Authority's objectives) which result in a no assurance opinion, will be reported in their entirety as part of the 'progress to plan' reporting. All other findings will be summarised in a covering report.
29. It is for management to determine whether or not to accept the audit exceptions and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions, which will be presented to the Governance & Audit & Standards Committee to challenge if they so wish. Where action is proposed on critical/high risks but has not been taken within a reasonable timeframe the matter will be escalated to the Governance & Audit & Standards Committee for resolution.
30. All reviews of the Annual Audit Plan will be presented for approval along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.
31. All reports issued in relation to any Audit assignment activity will be issued in the name of the Chief Internal Auditor. Any issues of concern maybe escalated at Strategic Board Level (Strategic Director's) as well as at the Governance & Audit & Standards Committee.

Access to records and personnel

32. All Internal Auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews as specified in Financial Rules and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.
33. All Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police. Consultation with the Investigation Steering Panel will be carried out in advance of contacting the Police where possible.

Due Professional Care

34. Both the Chief Internal Auditor and Deputy Chief Internal Auditor must hold a professional qualification and current membership, CMIIA, CCAB or equivalent and be suitably experienced.
35. The Chief Internal Auditor will assess on an annual basis the knowledge, skills and other competencies required within the Internal Audit Section in order for it to fulfil its purpose and effectively carry out professional duties in

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accordance with statutory requirements. This will include technology- based audit techniques to perform assignment work. Should there be insufficiencies identified these will be reported immediately to the Head of HR Legal and Performance and reported to the Governance & Audit & Standards Committee if there is likely to be an impact on achieving either the Annual Audit Plan or a sufficient level of reviews to enable an effective annual audit opinion to be made.

36. All Internal Auditors will have sufficient knowledge through training and continued professional development to carry out their duties including evaluating the risk of fraud; however it remains the responsibility of management to detect and manage fraud.
37. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the s151 officer and the Head of HR, Legal and Performance, if the CIA has been unable to resolve. Impairment may include, but is not limited to, personal conflict of interest, scope limitation, restrictions on access to records, personnel and properties and resource limitation, such as funding. A record will be made of any action taken.

Quality Assurance & Improvement Programme

38. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activities. In order to achieve this internal on-going supervision will be carried out after each audit assignment with the results recorded in 'TeamMate' (the electronic working papers). Along with the recording of one-to-one meetings and annual Performance Development Records on each individual auditor.
39. In addition to this the Chief Internal Auditor will carry out an annual self-assessment of the Internal Audit Sections performance against PSIAS, measuring the compliance with the definition of Internal Audit and Code of Ethics.
40. External peer reviews will be conducted every five years against PSIAS. The scope of the external assessment will be agreed with the Head of HR Legal and Performance and the Chair of Governance & Audit & Standards Committee. All results i.e. compliance or non-compliance with the standards, will be communicated to the Governance & Audit & Standards Committee along with an improvement plan if required and regular progress reports.
41. Any significant deviations from the Standards will be included in the Annual Governance Statement.
42. The effectiveness of the Internal Audit Section will be measured by;

**Portsmouth City Council - Internal Audit Charter & Code of Ethics
Draft September 2013**

- (1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high risk exceptions highlighted in Audit reviews 100%
- (2) Compliance with the PSIAS and Code of Ethics (reviewed by Peer Review)
- (3) Satisfactory External Audit reviews (when carried out)
- (4) External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority's accounts.
- (5) Audits completed to plan (90% of high risk audits completed)

Management of Internal Audit Activities

43. The Chief Internal Auditor will ensure that the work of the Internal Audit Section is of value to the Authority. This will be achieved by ensuring that the work carried out achieves its purpose as included in this charter and that all individual auditors have demonstrated conformance with the Code of Ethics and Standards.
44. The priorities of the Internal Audit Section will be determined annually using a risk based methodology and in consideration with the Authority's overall objectives. The risk-based approach will take into account the risk management framework and risk appetite levels. Details of how the plan will be delivered are contained in the Internal Audit Strategy along with any reliance placed on other sources of assurance work.
45. The Annual Audit Plan will be reviewed in response to changes in the Authority's risks, operations, systems and controls at least once during the year.

26th September 2013

**Portsmouth City Council - Internal Audit Charter & Code of Ethics
Draft September 2013**

This Charter and Code of Ethics are agreed by

Lyn Graham
Chief Internal Auditor
Date

Jon Bell
Head of HR Legal and Performance
Date

Chris Ward
s151 Officer
Date

Cllr Terry Hall
Chair of Governance & Audit & Standards Committee
Date

Related Papers:

Audit Strategy and Audit Annual Plans
Public Sector Internal Audit Standards and Code of Ethics
Accounts and Audit Regulations (updated)

Code of Ethics

Extract from the 'Public Sector Internal Audit Standards' Code of Ethics

Public sector requirements

Internal auditors in UK public sector organisations must confirm to the Code of ethics as set out below, If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's (Institute of Internal Auditors) Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

1. Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes

Portsmouth City Council - Internal Audit Charter & Code of Ethics Draft September 2013

those activities or relationships that may be in conflict with the interests of the organisation.

- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at www.public-standards.gov.uk

Agenda Item 13

Agenda item:

Decision maker:	Cabinet City Council
Subject:	Treasury Management Outturn 2012/13
Date of decision:	26 September 2013 (Governance and Audit and Standards Committee) 7 October 2013 (Cabinet) 15 October 2013 (City Council)
Report by:	Chris Ward, Head of Financial Services & Section 151 Officer
Wards affected:	All
Key decision:	No
Budget & policy framework decision:	No

1. Summary

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code requires local authorities to calculate prudential indicators before the start of and after each financial year. Those indicators that the Council is required to calculate at the end of the financial year are contained in Appendix A of this report.

The CIPFA Code of Practice on Treasury Management also requires the Section 151 Officer to prepare an annual report on the outturn of the previous year. This information is shown in Appendix B of the report.

2. Purpose of report

The purpose of this paper is to report on:

- The outturn Prudential Indicators for 2012/13
- The Treasury Management decisions taken over the course of 2012/13

3. Background

The Local Government Act 2003 requires local authorities to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.

The Prudential Code requires local authorities to adopt the CIPFA Code of Practice for Treasury Management in the Public Sector, which the City Council originally adopted in April 1994. Under the Code of Practice for Treasury Management an Annual Policy Statement is prepared setting out the strategy and objectives for the coming financial year. The Cabinet approved the policy statement for 2012/13 on 20 March 2012.

The Code of Practice also requires the Section 151 Officer to prepare an annual report on the outturn of the previous year. This information is shown under Appendix B of the report.

This report is based on the Council's unaudited draft accounts as the audit is not due to be completed until the end of September. Basing the report on the unaudited draft accounts will enable the report to be considered in the September / October meeting cycle rather than in November.

4. Recommendations

That the following recommendations relating to Appendices A and B of this report be approved:

Appendix A - That the following actual prudential indicators based on the unaudited draft accounts be noted:

- (a) The actual ratio of non Housing Revenue Account (HRA) financing costs to the non HRA net revenue stream of 12.0%;
- (b) The actual ratio of HRA financing costs to the HRA net revenue stream of 14.1%;
- (c) Actual non HRA capital expenditure for 2012/13 of £36,783,000;
- (d) Actual HRA capital expenditure for 2012/13 of £18,559,000;
- (e) The actual non HRA capital financing requirement as at 31 March 2013 of £278,198,000;
- (f) The actual HRA capital financing requirement as at 31 March 2013 of £142,010,000;
- (g) Actual external debt as at 31 March 2013 was £450,283,442 compared with £455,731,045 at 31 March 2012.

Appendix B - That the following actual Treasury Management indicators for 2012/13 be noted:

- (a) The Council's gross debt less investments at 31 March 2013 was £204,215,000;
- (b) The maturity structure of the Council's borrowing was

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Actual	4%	1%	3%	5%	9%	13%	11%	54%

- (c) The Council's sums invested for periods longer than 364 days at 31 March 2013 were:

	Actual £m
31/3/2013	100
31/3/2014	39
31/3/2015	19

- (d) The Council's fixed interest rate exposure at 31 March 2013 was £258m, ie. the Council had net fixed interest rate borrowing of £258m
- (e) The Council's variable interest rate exposure at 31 March 2013 was (£146m), ie. the Council had net variable interest rate investments of £146m

5. Implications

The net cost of Treasury Management activities and the risks associated with those activities have a significant effect on the City Council's overall finances. Effective Treasury Management provides support to the organisation in the achievement of its business and service objectives.

6. Legal implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

7. Head of Finance's comments

All financial considerations are contained within the body of the report and the attached appendices

.....
Signed by Head of Financial Services & Section 151 Officer

Appendices:

Appendix A: Prudential Indicators

Appendix B: Treasury Management Outturn

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<u>Title of document</u>	Location
1 Treasury Management Files	Financial Services
2	

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 15 October 2013.

.....
Signed by: the Leader of the Council

ACTUAL PRUDENTIAL INDICATORS

1. RATIO OF FINANCING COSTS TO NET REVENUE STREAM 2012/13

This ratio reflects the annual cost of financing net debt as a proportion of the total revenue financing received. It therefore represents the proportion of the City Council's expenditure that is largely fixed and committed to repaying debt. The higher the ratio, the lower the flexibility there is to shift resources to priority areas and/or reduce expenditure to meet funding shortfalls.

For the General Fund, this is the annual cost of financing debt and as a proportion of total income received from General Government Grants, Non Domestic Rates and Council Tax. The ratios of financing costs to net revenue streams for the General Fund in 2012/13 were as follows:

	Original Estimate	Actual
	£'000	£'000
Financing Costs:		
Interest Payable	15,377	18,091
Interest Receivable	(1,569)	(3,794)
Provision for Repayment of Debt	9,451	8,536
Effect of financial regulations on premiums & discounts	-	-
Total Financing Costs	23,259	22,833
Net Revenue Stream	196,512	191,040
Ratio of Financing Costs to Net Revenue Stream	11.8%	12.0%

Interest Payable was £2.7m more than the original estimate. This is mainly due undertaking additional borrowing on 28 March 2012 in order to access the loans at the National Loans Fund (NLF) rate from the Public Works Loans Board (PWLB) made available in connection with HRA Self Financing. The NLF rate is typically 1.13% below the rates normally offered by the PWLB.

Interest Receivable was £2.2m more than the original estimates. This was due to additional investments arising from the additional borrowing from the PWLB on 28 March 2012.

The provision for the repayment of debt was £0.9m less than the original estimate due to a lower than anticipated capital financing requirement at the end of 2011/12 caused largely by slippage in the Capital Programme. The capital financing requirement is a measure of the Council's unfunded capital expenditure, ie. its need to borrow.

The ratio of Housing Revenue Account (HRA) financing costs to net revenue stream is shown below. For the HRA, this is the annual cost of financing long term debt, as a proportion of total gross income received including housing rents and charges.

	Original Estimate	Actual
HRA	12.0%	14.1%

The actual percentage of HRA financing costs to net revenue stream is higher than anticipated. This is because the actual HRA Item 8 consolidated interest rate, ie. the interest rate applied to HRA borrowing, was higher than estimated and actual gross HRA income was less than the original estimate.

2. ACTUAL CAPITAL EXPENDITURE 2012/13

Actual capital expenditure in 2012/13 was as follows:

	Estimate £'000	Actual £'000
Culture & Leisure	3,645	985
Children's & Education Services	15,675	7,640
Environment & Community Safety	1,821	254
Health & Social Care (Adults Services)	790	438
Resources	8,205	5,256
Millennium	917	344
Planning, Regeneration & Economic Development	2,286	381
Commercial Port	4,799	4,780
Traffic & Transportation	24,195	14,869
Housing General Fund	2,604	1,836
Total Non HRA	64,937	36,783
HRA	26,108	18,559
Total	91,045	55,342

Actual capital expenditure was £35.7m below the original capital programme. The main variances were as follows:

Culture & Leisure - £2.6m Underspend

This underspend was due to slippage on the re-provision of Hillside and Wymering Community Centres, building the indoor tennis centre and the seafront Heritage Lottery Fund bid. The re-provision of Hillside and Wymering Community Centres was due to delays in obtaining funding and capacity constraints in the Design Service. Building the indoor tennis centre slipped due to delays in obtaining planning permission. The seafront Heritage Lottery Fund bid needed to be resubmitted.

Children's and Education Services - £8.1m Underspend

The main reasons for the underspend on the Children and Education capital programme was a £7m underspend due to the misprofiling of the schools' strategy budget. There was also a £0.7m underspend due to the delay in building the secondary special education needs provision and a £0.4m underspend on the Victory School build.

Environment & Community Safety - £1.6m Underspend

The capital programme included a £1.4m surface water flood alleviation scheme which was mostly funded by the Environment Agency. This scheme was subsequently abandoned as the Environment Agency decided to fund Southern Water to undertake these works.

Resources - £2.9m Underspend

There was £2m of slippage in capital loans advanced to the Council's subsidiary, MMD (Shipping Services) Ltd. MMD (Shipping Services) intended to construct a further warehouse on the understanding that they would obtain a new customer in 2013/14. This scheme has now been deferred to 2013/14 as the new customer is not now expected to start its operations in Portsmouth until 2015. In addition there was £0.5m of slippage on the roll out of Windows 7 whilst departments within the Council determined their specific requirements.

Planning, Regeneration and Economic Development - £1.9m Underspend

This is mostly due to the planned upgrade to roads serving the Northern Quarter being delayed until the Tipner motorway junction is completed in order to avoid too many restrictions being placed on the current road network whilst these schemes are constructed.

Traffic & Transportation - £9.3m Underspend

This underspend relates to the Tipner motorway junction and park and ride scheme, and the rebuilding of Northern Road Bridge which were at an early stage of planning when the capital programme was prepared. Consequently the phasing of these schemes needed to be refined as they progressed.

Housing Revenue Account (HRA) - £7.5m Underspend

Phase 1 of the Somerstown Hub has been subject to slippage due to protracted negotiations with the Primary Care Trust. Phase 2 of the Somerstown scheme has been abandoned. The construction of new dwellings on Eastern Road has been delayed due to planning issues. In addition some schemes to existing dwellings have been postponed as more work is required than was originally thought.

3. ACTUAL CAPITAL FINANCING REQUIREMENT

This represents the underlying requirement to borrow for capital expenditure. It takes the total value of the City Council's fixed assets and determines the amount that has yet to be repaid or provided for within the Council's accounts. The capital financing requirement also forms the basis of the calculation of the amount of money that has to be set aside for the repayment of outstanding General Fund debt. The capital financing requirement is increased each year by any new borrowing and reduced by any provision for the repayment of debt. The higher the capital financing requirement, the higher the amount that is required to be set aside for the repayment of debt in the following year.

The actual capital financing requirements as at 31st March 2013 were as follows:

	Original Estimate	Actual
	£'000	£'000
Non HRA	290,269	278,198
HRA	143,924	142,010
Total	434,193	420,208

The capital financing requirement is lower than the original estimate due to less capital works being undertaken in 2012/13 than had been planned.

4. ACTUAL EXTERNAL DEBT

At 31 March 2013, the City Council's level of external debt amounted to £450,283,442 consisting of the following:

- Long Term Borrowing £361,524,450
- Finance leases £4,537,991
- Service concessions (including PFI schemes) £84,221,001

The overall level of debt, excluding debt managed by Hampshire County Council, has reduced between 2011/12 and 2012/13 by £5,447,603.

5. CODE OF PRACTICE

The Prudential Code requires local authorities to adopt CIPFA's Code of Practice for Treasury Management in Local Authorities. The City Council has complied with this code.

TREASURY MANAGEMENT DECISIONS 2012/13**1. GOVERNANCE**

Treasury management activities were performed within the Prudential Indicators approved by the City Council.

Treasury management activities were also performed in accordance with the Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council.

2. FINANCING OF CAPITAL PROGRAMME

The 2012/13 capital programme was financed as follows:

Source of Finance	Anticipated £'000	Actual £'000
Corporate Reserves (including Capital Receipts)	9,499	5,414
Grants & Contributions	40,077	27,546
Revenue & Reserves	26,885	16,729
Long Term Borrowing	14,584	5,653
Total	<u>91,045</u>	<u>55,342</u>

There was significant slippage in the capital programme and some schemes were curtailed or abandoned. This meant that less capital resources were used to finance the capital programme.

3. ECONOMIC BACKGROUND

During the quarter ended 31 March household spending strengthened, both on and off the high street; unemployment rose for the first time in a year; inflation remained stubbornly above the Monetary Policy Committee's (MPC) 2% target; three members of the MPC voted for further quantitative easing; UK equity prices rose and sterling fell; and the US economic recovery gathered pace.

4. GROSS AND NET DEBT

The Council's net borrowing position at 31 March 2013 was as follows:

	1 April 2012	31 March 2013
	£'000	£'000
Borrowing	364,876	361,524
Finance Leases	5,335	4,538
Service Concession Arrangements (including PFIs)	85,483	84,221
Gross Debt	455,694	450,283
Investments	(238,637)	(246,068)
Net Debt	217,057	204,215

The Council has a high level of investments relative to its gross debt due to a high level of reserves, partly built up to meet future commitments under the Private Finance Initiative schemes and future capital expenditure. The £84m of borrowing taken in 2011/12 to take advantage of the very low PWLB rates has also temporarily increased the Council's cash balances.

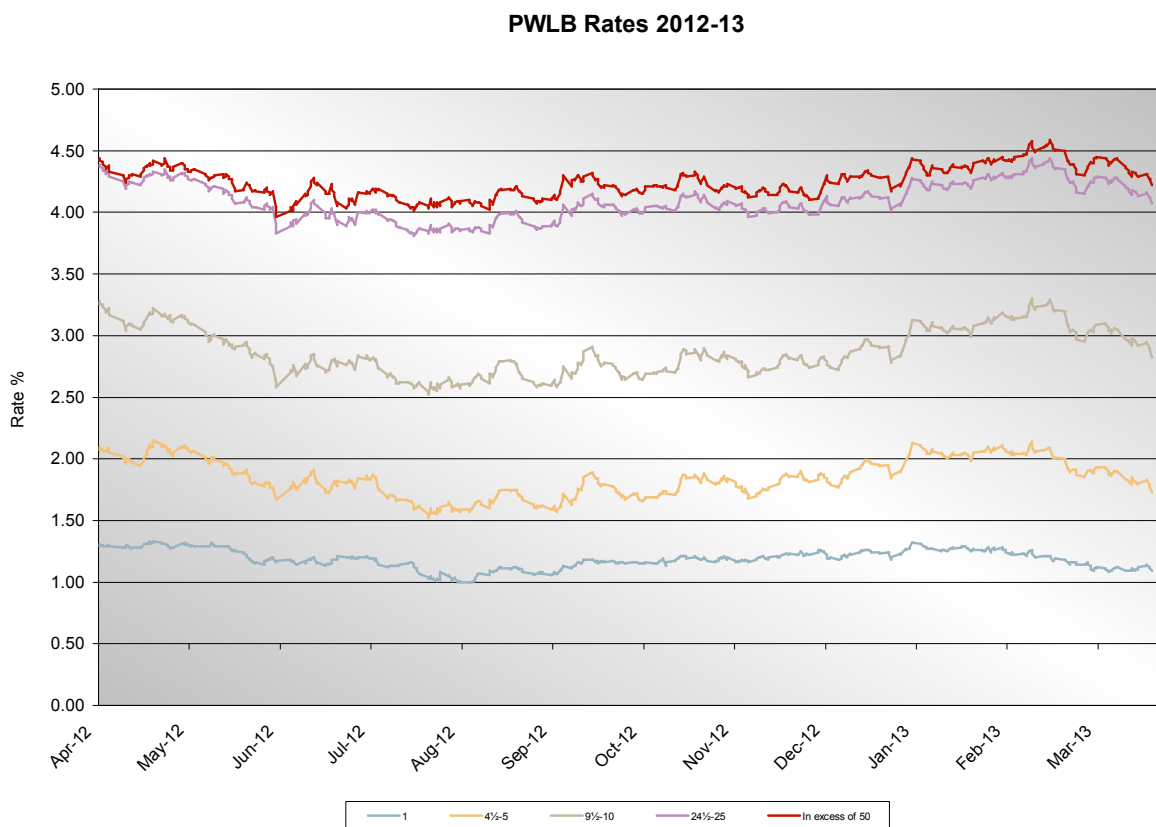
The current high level of investments increases the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. In the interim period where investments are high because loans have been taken in advance of need, there is also a short term risk that the rates (and therefore the cost) at which money has been borrowed will be greater than the rates at which those loans can be invested. The level of investments will fall as capital expenditure is incurred and commitments under the Private Finance Initiative (PFI) schemes are met.

5. BORROWING ACTIVITY

On 20th March 2012 the Council gave the Head of Financial Services and Section 151 Officer delegated authority to borrow up to £50m in advance of need as measured by the Capital Financing Requirement from 23rd March 2012 in order to fund the HRA Self Financing payment at the National Loans Fund rates offered by the Government. This was the estimated borrowing required to support the Council's capital programme until 2016/17.

On 28th March 2012 the Council borrowed £88.6m from the PWLB at NLF rates. As a consequence the Council's external debt exceeded its capital financing requirement by £30.1m at 31st March 2013.

PWLB rates in 2012/13 were as follows:



No new long term borrowing was undertaken in 2012/13.

6. DEBT RESCHEDULING

Debt rescheduling opportunities have been limited in the current economic climate and by the structure of interest rates following increases in PWLB new borrowing rates in October 2010.

No debt rescheduling was undertaken in 2012/13.

7. REFINANCING RISK

In recent years the cheapest loans have often been very long loans repayable at maturity.

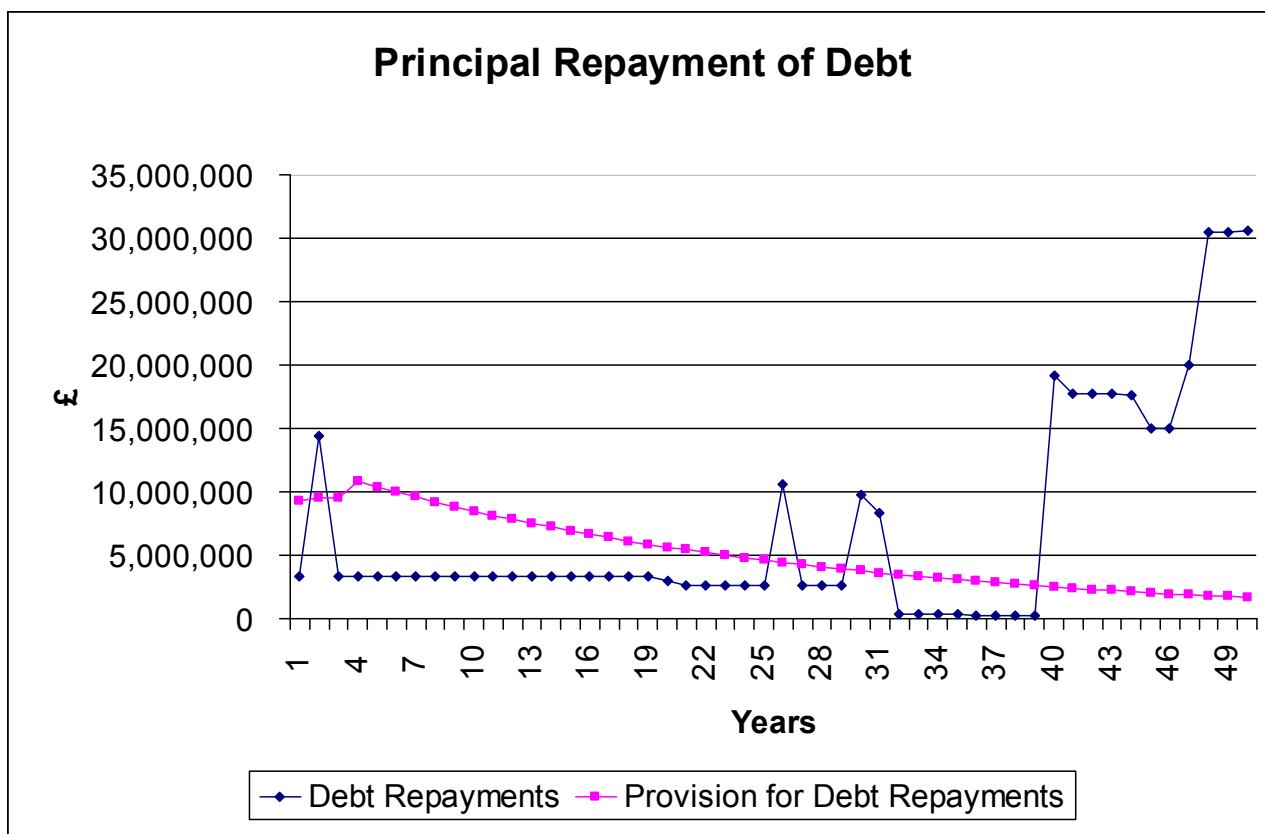
During 2007/08 the Council rescheduled £70.8m of debt. This involved repaying loans from the Public Works Loans Board (PWLB) early and taking out new loans from the PWLB with longer maturities ranging from 45 to 49 years. The effect of the debt restructuring was to reduce the annual interest payable on the Council's debt and to lengthen the maturity profile of the Council's debt.

£50m of new borrowing was taken in 2008/09 to finance capital expenditure. Funds were borrowed from the PWLB at fixed rates of between 4.45% and 4.60% for between 43 and 50 years.

A further £173m was borrowed in 2011/12 to finance capital expenditure and the HRA Self Financing payment to the Government. Funds were borrowed from the PWLB at rates of between 3.48% and 5.01%. £89m of this borrowing is repayable at maturity in excess of 48 years. The remaining £84m is repayable in equal instalments of principal over periods of between 20 and 31 years.

As a result of interest rates in 2007/08 when the City Council rescheduled much of its debt and interest rates in 2008/09 and 2011/12 when the City Council undertook considerable new borrowing 54% of the City Council's debt matures in over 40 years time.

The Government has issued guidance on making provision for the repayment of debt which the Council is legally obliged to have regard to. The City Council is required to make greater provision for the repayment of debt in earlier years. Therefore the City Council is required to provide for the repayment of debt well in advance of it becoming due. This is illustrated in graph below.



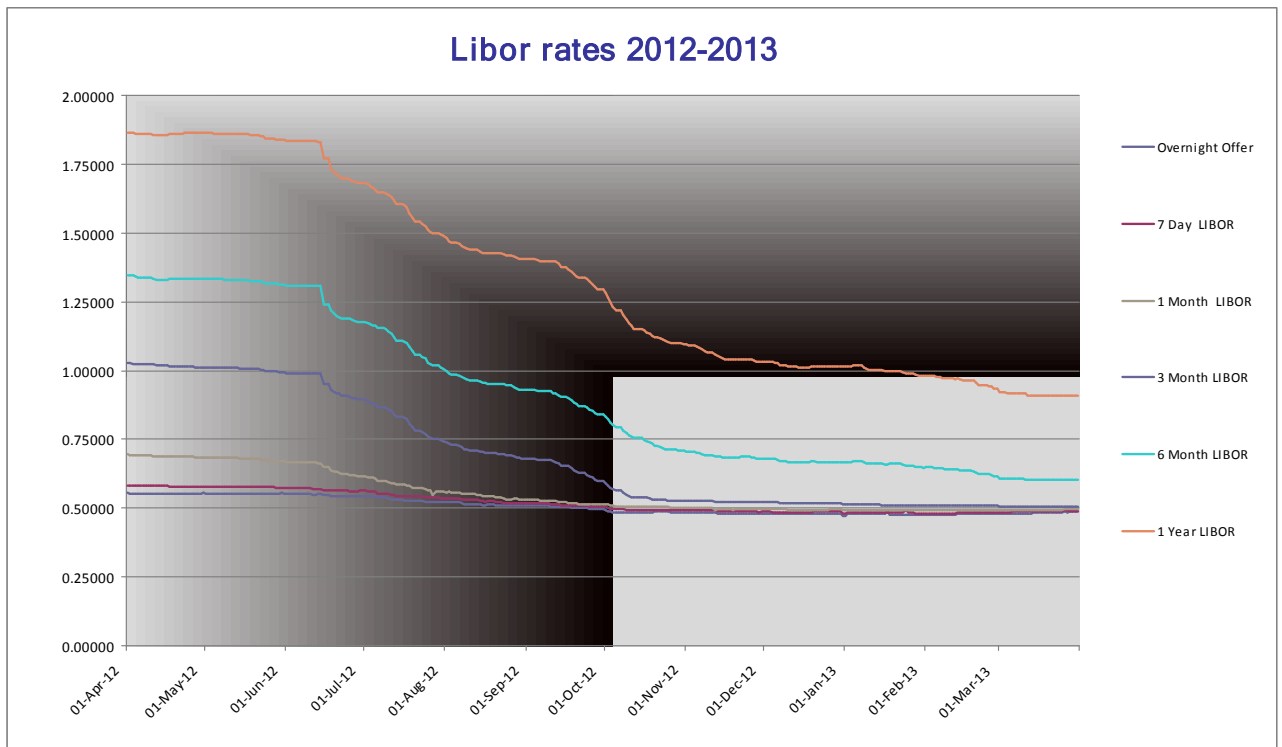
This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see sections 9 and 11). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders.

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper and lower limits for the maturity of borrowings in defined periods. The Council's performance against the limits set by the City Council is shown below.

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	6%	6%	18%	30%	60%	60%	60%	80%
Actual	4%	1%	3%	5%	9%	13%	11%	54%

8. INVESTMENT ACTIVITY

London inter bank lending rates in 2012/13 are shown in the graph below:



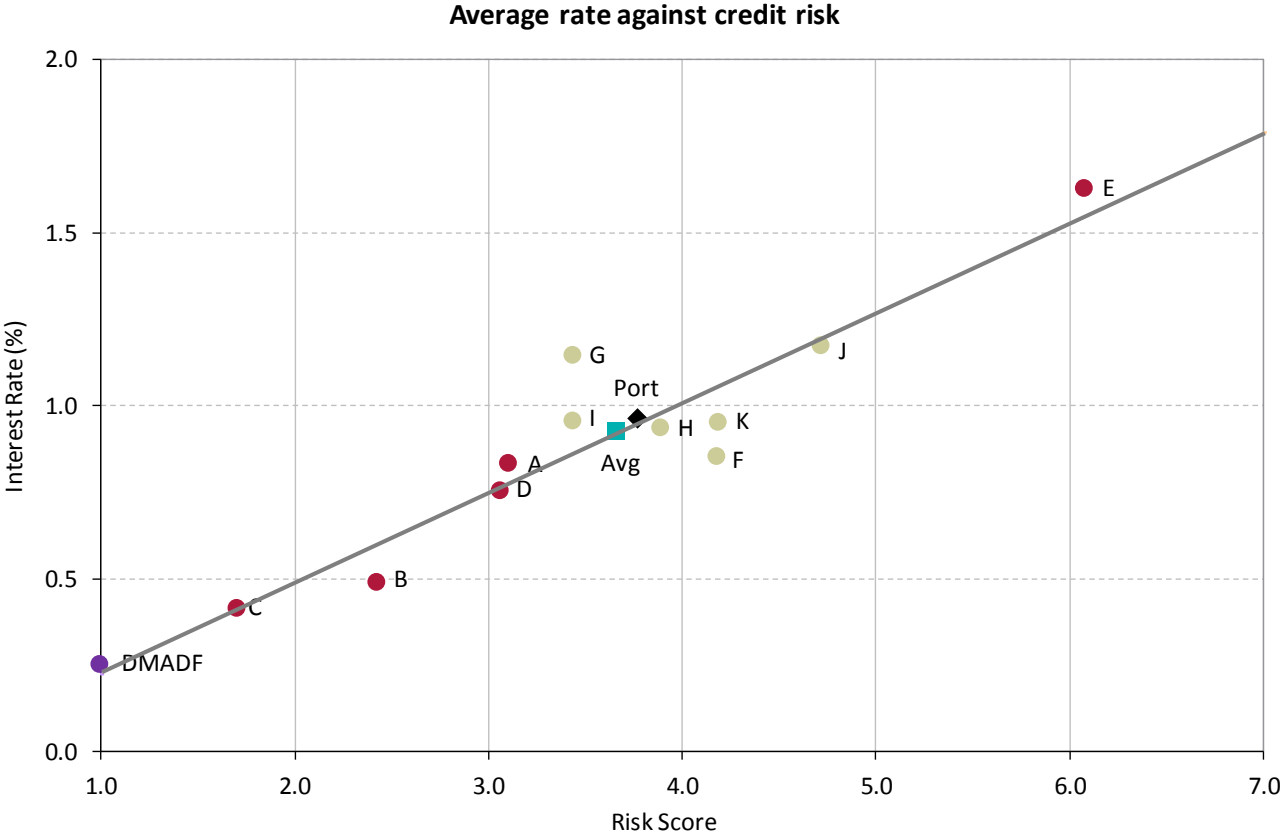
Bank base rate remained at 0.5% over the financial year and has remained unchanged since March 2009. While high demand and low supply of, cash had maintained rates at relatively high levels in comparison to bank base rate for much of this time, interest rates declined quickly from June 2012 after the Bank of England announced the Funding for Lending Scheme (FLS) and the Extended Collateral Term Repo (ECTR) facility. The FLS was designed to stimulate lending to individuals and companies by offering cheap funding to the banking sector. The influx of cheap Bank of England cash reduced banks' demand for cash from other sources and consequently placed downward pressure on market rates.

The City Council's overall returns on its investments fell as existing investments made prior to June 2012 matured and were replaced by new investments at the lower rates which were available at the time.

The average return on the Councils investments in 2012/13 was 0.96%.

In June 2012 Barclays Bank was downgraded by two of the three main credit rating agencies. The rating agencies expressed concerns about the concentration of risks in global investment banking and exposure to a weak operating environment, particularly in Spain and Italy, as well as in the UK together with the probability of government support reducing over the medium term. The rating agencies also expressed concerns following the resignation of Bob Diamond, the former Chief Executive, and the accompanying strategic uncertainty arising from this and other changes in management. The agencies believed that Barclays had been negatively affected by these changes along with revelations of poor business practices and weak compliance in relation to the setting of LIBOR rates. Consequently Barclays investment limit was reduced from £15m to £10m. At the time of the downgrade the Council had £15m invested with Barclays, £5m in excess of the revised investment limit. Barclays repaid the Council's deposits with interest on the due dates. At 31 March 2013 the Council had £8m invested with Barclays.

The City Council's investment activities are benchmarked by Sterling Consultancy Services against 11 other councils. The graph below shows the councils' average rates of return against credit risk.



Portsmouth is broadly positioned in the center of the line, close to the group average. The combination of long term, high quality deposits and shorter-term lower quality investments helped the Council gain returns above some authorities that have accepted relatively higher risk.

9. SECURITY OF INVESTMENTS

The risk of default has been managed through limiting investments in any institution to a maximum £20m, setting investment limits for individual institutions that reflect their financial strength and spreading investments over countries and sectors.

The 2012/13 Treasury Management Policy approved by the City Council on 20 March 2012 and amended by the City Council on 3 December only permitted deposits to be placed with the Council's subsidiaries, namely MMD (Shipping Services) Ltd, the United Kingdom Government, other local authorities and banks that have the following minimum credit ratings:

Short Term Rating

F2 (or equivalent) from Fitch, Moody's (P-2) or Standard and Poor (A-2)

Long Term Rating

BBB (except for the Co-operative Bank who hold the Council's main current accounts) or equivalent from Fitch, Moody's or Standard & Poor

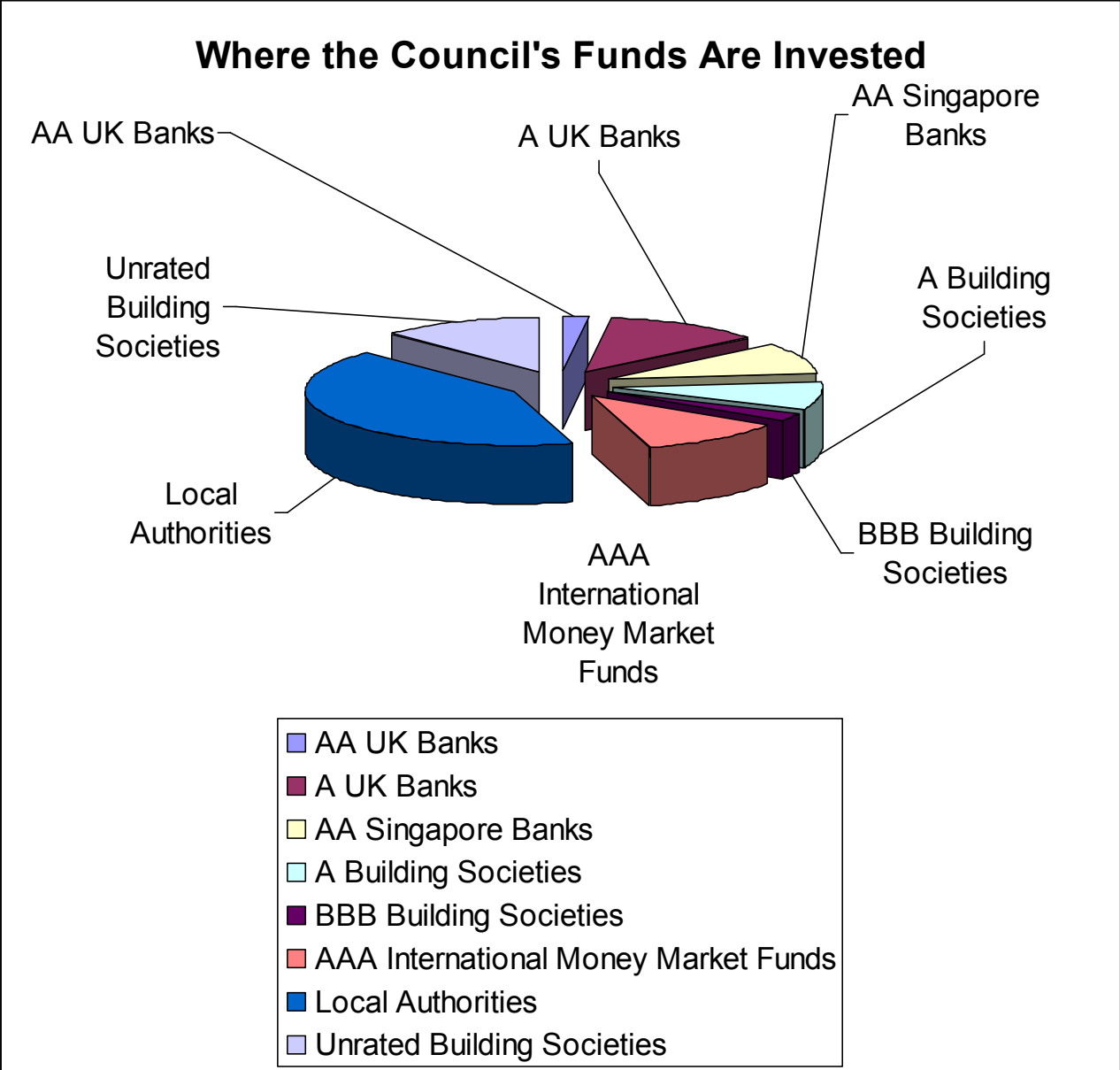
Individual / Financial Strength Rating

C from Fitch or Moody's (Standard & Poor do not provide these ratings)

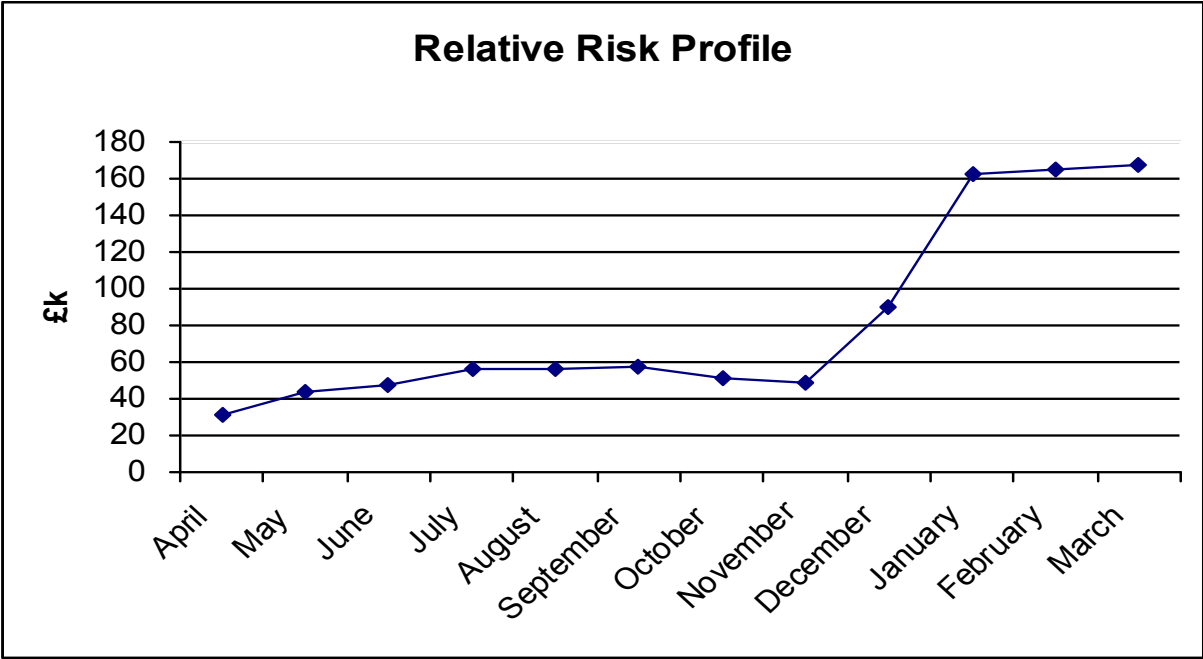
In addition on 3 December 2012 the City Council added nineteen unrated building societies and one building society with a single credit rating to the counter party list. These were drawn from the 36 largest building societies, but excluding those with especially large proportions of non-mortgage lending or wholesale funding, and those with particularly low levels of capital or liquidity, compared with the sector average.

At 31 March 2013 the City Council had on average £5.9m invested with each institution.

The chart below shows how the Council's funds were invested at 31 March 2013.



The credit rating agencies publish default rates for each rating category. Multiplying these default rates by the amount invested in each credit rating category provides a measure of risk that can be used as a benchmark to determine whether the City Council’s investment portfolio is becoming more or less risky over time as shown in the graph below.



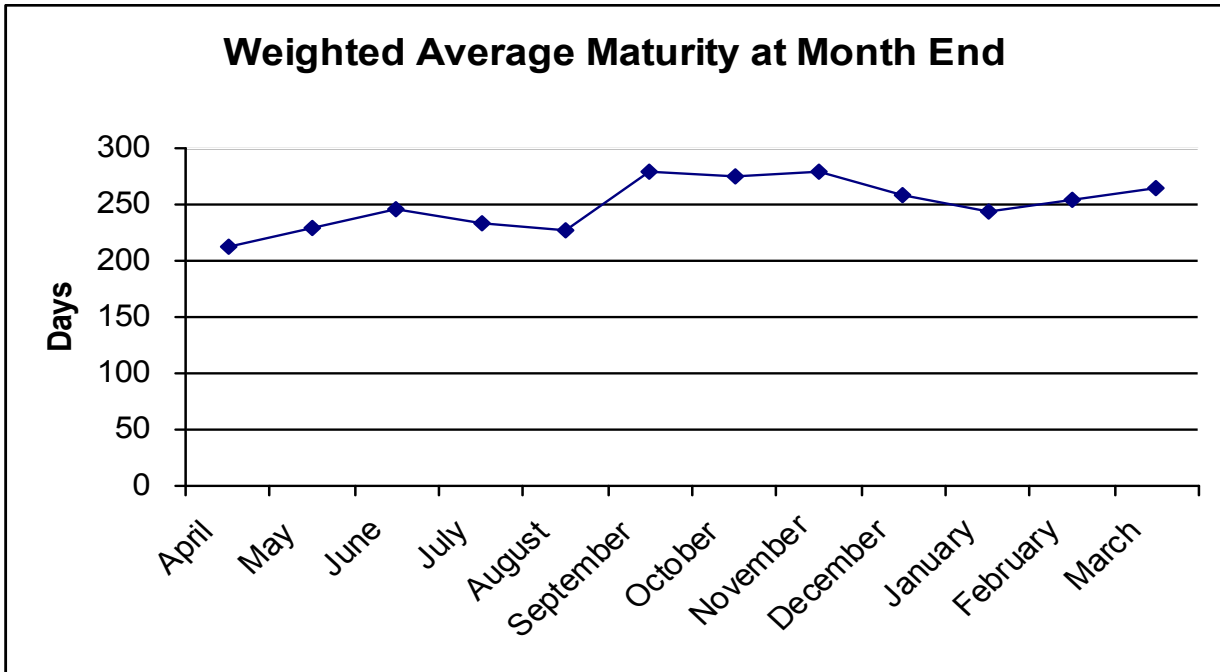
The City Council’s investment portfolio became relatively more risky over the first quarter of 2012/13. This is largely due to much less use being made of AAA rated money market funds that pay relatively low levels of interest.

There was a sharp increase in the riskiness of the investment portfolio in December and January. This is due to investments in unrated building societies which were added to the list of approved investments in the Mid Year Review. For the purposes of calculating the risk profile of the portfolio unrated building societies are assumed to be equivalent to a BBB- credit rating.

The above graph should be read in relative terms. A default occurs when sums due are not paid on time. A default does not mean that the sum invested will be lost permanently.

10. LIQUIDITY OF INVESTMENTS

The weighted average maturity of the City Council's investment portfolio started at 212 days in April and increased to 265 days in March as funds were available to invest longer to get a higher return. This is shown in the graph below.



The 2012/13 Treasury Management Policy sought to maintain the liquidity of the portfolio, ie. the ability to liquidate investments to meet the Council's cash requirements, through maintaining at least £10m in instant access accounts. At 31st March 2013 £27.8m was invested in instant access accounts. Whilst short term investments provide liquidity and reduce the risk of default, under normal circumstances they do also leave the Council exposed to falling interest rates. However, with interest rates close to zero that risk is now negligible.

Under CIPFA's Treasury Management Code it is necessary to specify limits on the amount of long term investments, ie. Investments exceeding 364 days that have maturities beyond year end in order to ensure that sufficient money can be called back to meet the Council's cash flow requirements. The Council's performance against the limits set by the City Council on 11th December 2012 is shown below.

	Limit (Not Exceeding) £m	Actual £m
31/3/2013	150	100
31/3/2014	90	39
31/3/2015	80	19

11. INTEREST RATE RISK

This is the risk that interest rates will move in a way that is adverse to the City Council's position.

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for fixed interest rate exposures. Fixed interest rate borrowing exposes the Council to the risk that interest rates could fall and the Council will pay more interest than it need have done. Long term fixed interest rate investments expose the Council to the risk that interest rates could rise and the Council will receive less income than it could have received. However fixed interest rate exposures do avoid the risk of budget variances caused by interest rate movements. The Council's performance against the limits set by the City Council is shown below.

	Limit £m	Actual £m
Maximum Projected Gross Borrowing – Fixed Rate	378	358
Minimum Projected Gross Investments – Fixed Rate	-	(100)
Fixed Interest Rate Exposure	378	258

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes also require local authorities to set upper limits for variable interest rate exposures. Variable interest rate borrowing exposes the Council to the risk that interest rates could rise and the Council’s interest payments will increase. Short term variable interest rate investments expose the Council to the risk that interest rates could fall and the Council’s investment income will fall. Variable interest rate exposures carry the risk of budget variances caused by interest rate movements. The Council’s performance against the limits set by the City Council is shown below.

	Limit	Actual
	£m	£m
Minimum Projected Gross Borrowing – Variable Rate	-	-
Maximum Projected Gross Investments – Variable Rate	(378)	(146)
Variable Interest Rate Exposure	(378)	(146)

12. REVENUE COSTS OF TREASURY MANAGEMENT ACTIVITIES IN 2012/13

Expenditure on treasury management activities against the revised budget is shown below.

Interest 2012/13

	Revised Estimate 2012/13 £	Actual 2012/13 £	Variance +/- £
PWLB – Maturity Loans	10,570,396	10,570,396	-
PWLB - E.I.P Loans	4,146,980	4,146,980	-
Other Long Term Loans	511,500	511,500	-
HCC Transferred Debt	509,291	511,255	1,964
Interest on Finance Lease	251,329	252,937	1,608
Interest on Service Concession Arrangements (including PFIs)	9,055,760	9,062,366	6,606
Interest Payable to External Organisations	7,694	8,097	403
Net Premiums on Early Redemption of Loans	115,184	115,184	-
	<hr/> 25,168,134	<hr/> 25,178,715	<hr/> 10,581
<u>Deduct</u>			
Investment Income	(3,591,565)	(4,095,355)	(503,790)
	<hr/> 21,576,569	<hr/> 21,083,360	<hr/> (493,209)
Provision for Repayment of Debt	11,488,842	11,490,083	1,241
Debt Management Costs	308,479	312,517	4,038
	<hr/> 33,373,890	<hr/> 32,885,960	<hr/> (487,930)

There is a favorable balance on investment income as cash balances were higher than forecast and the Council was able to obtain higher interest rates on its investments than had been anticipated.

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Agenda Item 14

Agenda item:

Decision maker: Cabinet

Subject: Treasury Management Monitoring Report for the First Quarter of 2013/14

Date of decision: 26 September 2013 (Governance and Audit and Standards Committee)
7 October 2013 (Cabinet)

Report by: Head of Financial Services & Section 151 Officer

Wards affected: All

Key decision: No

Budget & policy framework decision: No

1. Summary

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Treasury Management as “The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”. The risks associated with treasury management include credit risk, liquidity risk, interest rate risk and refinancing risk. The report contained in Appendix A reports on the City Council’s treasury management position as at 30 June 2013.

2. Purpose of report

The purpose of the report in Appendix A is to inform members and the wider community of the Council’s Treasury Management position at 30 June 2013 and of the risks attached to that position.

3. Background

In March 2009 the CIPFA Treasury Management Panel issued a bulletin on Treasury Management in Local Authorities. The bulletin states that “in order to enshrine best practice it is suggested that authorities report formally on Treasury Management activities at least twice yearly and preferably quarterly”. The report in Appendix A covers the first three months of 2013/14

4. Recommendations

That the following actual treasury management indicators for the first quarter of 2013/14 be noted:

(a) The Council’s debt at 30 June was as follows:

Prudential Indicator	Limit £m	Actual £m
Authorised Limit	469	446
Operational Boundary	447	446

(b) The maturity structure of the Council’s borrowing was

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	25%	25%	25%	25%	30%	30%	30%	70%
Actual	4%	1%	3%	5%	9%	13%	11%	54%

- (c) The Council's sums invested for periods longer than 364 days at 30 June 2013 were:

	Prudential Limit	Quarter 1 Actual
	£m	£m
Maturing after 31/3/2014	218	62
Maturing after 31/3/2015	208	20
Maturing after 31/3/2016	198	5

- (d) The Council's fixed interest rate exposure at 30 June 2013 was £275m, ie. the Council had net fixed interest rate borrowing of £275m
- (e) The Council's variable interest rate exposure at 30 June 2013 was (£192m), ie. the Council had net variable interest rate investments of £192m

5. Implications

The net cost of Treasury Management activities and the risks associated with those activities have a significant effect on the City Council's overall finances. Effective Treasury Management provides support to the organisation in the achievement of its business and service objectives.

6. Equality impact assessment (EIA)

A preliminary equalities impact assessment on Treasury Management Policy was carried out in March 2013.

7. City Solicitor's Comments

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Head of Finance's comments

All financial considerations are contained within the body of the report and the attached appendices

.....
Signed by Head of Financial Services

Appendices:

Appendix A: Treasury Management Monitoring Report

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<u>Title of document</u>	Location
1 Treasury Management Files	Financial Services
2	

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the Cabinet on 7 October 2013.

.....
Signed by: the Leader of the Council

**TREASURY MANAGEMENT MONITORING REPORT FOR THE FIRST QUARTER OF
2013/14**

1. GOVERNANCE

The Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council on 4 March 2013 provide the framework within which treasury management activities are undertaken. This can be found on the following link: <http://www.portsmouth.gov.uk/yourcouncil/28893.html>

2. ECONOMIC BACKGROUND

During the quarter ended 30th June: -

- Indicators suggested that the economy accelerated;
- Household spending, both on and off the high street was stronger;
- Inflation remained stubbornly above the MPC's 2% target;
- The MPC remained in a state of limbo ahead of Mark Carney's arrival;
- 10-year gilt yields rose above 2.5% and the FTSE 100 fell below 6,100;
- The Federal Reserve discussed tapering the pace of asset purchases under Quantitative Easing 3 (QE3).

After avoiding recession in the first quarter with a 0.3% quarterly expansion, it looks likely that the economy grew even more strongly in Q2. On the basis of past form, the CIPS/Markit business surveys for April and May point to 0.5% quarterly growth in the second quarter of 2013. Official output data echoed the message from the business surveys. The 3 month /3 month change in industrial production reached 0.9% in April, the strongest pace since July 2010. Similarly, the service sector expanded by 0.8% on the same basis. The UK service sector is by far the most important determinant of economic growth representing the majority of the UK economy. While output in the volatile construction sector in April was 1% lower than a year ago, it was the smallest annual fall since the end of 2011, raising the prospect that the sector supported the recovery in Q2.

There have been signs of renewed vigour in household spending in the second quarter. May's 2.1% monthly rise in retail sales overturned April's 1.1% fall. This tallied with information from the Bank of England agents, who reported a further pick-up in retail sales values in May. Non-high street spending looks to have been robust too, with new car registrations up by 20% in the year to May.

The pick-up in economic growth appears to have supported the labour market, with employment rising by 24,000 in the three months to April. Admittedly, this was a lot slower than the 113,000 quarterly gain in employment seen on average over the past twelve months. But the rise in employment was still strong enough to reduce the level of unemployment further. The International Labour Organisation measure fell by 5,000 in the three months to April while the timelier claimant count measure reported an 8,600 fall in May. Meanwhile, pay growth rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the additional rate of income tax. Excluding bonuses, earnings rose by just 1.3% year on year, well below the rate of inflation at 2.7% in May.

Meanwhile, the Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with the quoted interest rate on a 2-year fixed rate mortgage at a 90% loan-to-value ratio now 4.6%, around 130 basis-points lower in May than when the FLS was introduced in August 2012.

Alongside the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks, as measured by the BBA, rose from 33,000 to 36,100 in May. Excluding a stamp-duty holiday related spike in January 2012, this was the highest level for over three years. The rise in demand has helped to push up house prices, with both the Halifax and Nationwide measures reporting a 0.4% monthly gain in May. On an annual basis, measured prices were up by 3.7% and 1.1% respectively.

Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 looked to be broadly in line with last year's figures, highlighting the government's difficulty in reducing borrowing while economic growth is relatively lacklustre.

Meanwhile, the 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan. Total expenditure was still forecast to be broadly flat in real terms in 2015/16 and the £50bn planned capital expenditure announced for that fiscal year was identical to the amount already outlined in March's Budget.

On the monetary policy front, June's MPC meeting, the last chaired by the outgoing Governor Sir Mervyn King, showed that the Committee remained in limbo ahead of the arrival of his replacement, Mark Carney. The Committee voted 6-3 to keep the level of asset purchases unchanged at £375bn, with the majority judging that the current stimulus and Funding for Lending Scheme would be sufficient to support growth in the context of price stability.

Having fallen from 2.8% to 2.4% in April, CPI inflation rose to 2.7% in May. May's rise mostly reflected price changes due to the earlier timing of Easter, which depressed inflation in April. Even so, inflation is still likely to have risen further in June due to base effects, with last year's fuel price falls providing an unfavourable annual comparison. That said, underlying price pressures do seem to be easing, with wages and producer prices both growing at subdued rates. Indeed, if anything, the inflation outlook brightened over the second quarter, with the price of oil falling from \$108 per barrel to \$103 per barrel while sterling appreciated by around 1.5% on a trade-weighted basis.

Having continued to rally over April and May, financial markets sold off in June following a Federal Reserve statement that suggested the central bank may 'taper' its asset purchases earlier than anticipated. The resulting rise in US Treasury yields was replicated in the UK, with 10 year gilt yields rising to 2.5% from 1.8% at the start of the quarter. Equities were hit too, with the FTSE 100 falling from 6,411 at the start of the quarter to below 6,100 before ending the quarter a bit higher at 6,240.

In the US, the statement from the Fed took the limelight. The Fed's comments sparked a sharp sell-off in the Treasury market, with 10-year Treasury yields hitting 2.54%. The Fed move was a response to the improving economic outlook in the US. Indeed, payroll figures showed that the US added 175,000 new jobs in May, helping to pull the unemployment rate down to 7.6%, from 8.2% a year ago. In the housing market, house prices rose by 12% in the year to April, which helped to bring more households out of negative equity.

Meanwhile, tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a potential flare-up. For example, the Democratic Left party left the Greek governing coalition in June, causing 10 year Greek government bond yields to surge to 11.5% from around 8% a month ago. And while the economic survey data improved consistently over the first half of the year, the composite Eurozone purchase managers index is still pointing to a further contraction in output in Q2. If this materialises, it would be the seventh quarter of Eurozone recession, the longest on record.

3. INTEREST RATE FORECAST

The Council's treasury advisor, Sector, has provided the following forecast:

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB rate	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%	2.40%
10yr PWLB rate	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.50%
25yr PWLB rate	4.10%	4.10%	4.20%	4.20%	4.30%	4.40%	4.60%
50yr PWLB rate	4.20%	4.20%	4.40%	4.40%	4.50%	4.60%	4.70%

Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report in May 2013. Sector has left unchanged its forecast for the first increase in Bank Rate to be in March 2015. However, forecasts for PWLB rates have been increased as a result of the marked recovery in confidence in equity markets, anticipating stronger economic recovery in America, supported by growth in the Far East. The rise in equity prices was dented towards the end of the quarter by comments from Ben Bernanke, chairman of the Federal Reserve, that QE3 would be tapered off in the not too distant future. This seemed to catch financial markets by surprise and generated a bit of a stampede out of bonds and equities. This sharp sell off in bonds caused ten year bond yields to jump up nearly 90 bps between the low and high for the quarter.

SUMMARY OUTLOOK

In Sir Mervyn King's last Inflation Report as Governor of the Bank of England, there was a distinct shift towards optimism in terms of a marginal upgrading of growth forecasts so that the wording changed for the recovery from "remain weak by historical standards" to "modest and sustained recovery over the next three years". In addition, there was a lowering of the inflation forecast to now hit the 2% target within two years. However, this is still a long way away from strong recovery though the chances of there being more quantitative easing (QE) have receded due to business surveys indicating that the economy is on the up. QE has not increased from a total of £375bn since October 2012 and other measures have been implemented in preference to further QE. Thus the Funding for Lending Scheme (FLS), (started in August 2012), was expanded in April to provide further incentive to banks to expand lending to small and medium size enterprises. The FLS certainly seems to be having a positive effect in terms of stimulating house purchases (though levels are still far below the pre crisis level), and a marginal increase in house prices. However, concerns are increasing that QE and FLS are also in danger of causing asset price bubbles. Investors may seek higher returns by switching investment of cash from deposit accounts (yielding very low rates) and from government and corporate bonds - ahead of the eventual end of QE - to equities, whilst FLS may have the side effect of inflating house prices, creating the potential for prices in each of these markets to be pushed at some point in time to potentially unsustainable levels.

In summary, Sector's current views are centred around the following: -

UK

- Mark Carney started on 1st July as the new Governor of the Bank of England. His appointment could lead to some changes to the way the MPC operates and makes decisions and announcements. It is possible there could be forward guidance e.g. that Bank Rate will not go up until some target rate, e.g. unemployment, had fallen to a specified level. Some commentators are guessing that this could effectively close the door to any increase in Bank Rate until sometime in 2016.
- Growth in Q1 of 2013 was confirmed at +0.3%. Q2 looks likely to be even higher at around +0.5%. The so called double dip recession at the beginning of 2012 was erased by the latest revision of statistics.
- Business surveys, consumer confidence, consumer borrowing and house prices are all on the up and may help to create a wide spread feel good factor. But this is still a long way away from the UK getting back to strong growth.
- A fair proportion of UK GDP is dependent on overseas trade; the high correlation of UK growth to US and EU GDP growth means that the UK economy is likely to register growth rates below the long term average in 2013 and 2014, though this should be on an improving trend.
- Consumers are likely to remain focused on paying down debt and consumer expenditure is likely to remain suppressed by inflation being higher than increases in average earnings i.e. disposable income will continue to be eroded.

- The government is hampered in promoting growth by the need to tackle the budget deficit. However, the March budget did contain measures to boost house building and the supply of mortgages, and brought forward, by one year to April 2014, the start of a £10,000 tax free allowance for incomes.
- There is little sign of a co-ordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- Government inspired measures to increase the supply of credit to small and medium enterprises (which are key to achieving stronger growth) by banks are not succeeding.
- There is little potential for more QE in 2013 in the UK and so gilt yields are vulnerable to pressures to rise, especially as gilt yields are powerfully influenced by American treasury yields and American investors have been spooked by Bernanke's comments on tapering QE in America.
- In February 2013 Moody's downgraded the UK's AAA credit rating one notch to AA+ and Fitch followed suit in April. There was little reaction in financial markets, as this had been widely anticipated.

Euro zone

- Most Euro zone countries are now battling against recession, although Germany is experiencing a resurgence of business confidence and surveys are pointing towards a resumption of growth. Growth prospects for many Euro zone countries are poor due to the need to adopt austerity programmes to bring government deficits under control.
- The ECB cut its central rate from 0.75% to 0.5% in this quarter but this is unlikely to lead to much in the way of improvement in the prospects for GDP growth.
- Market anxiety about Greece has subsided after the agreement to a further major financial support package amounting to nearly €50bn in December. Although business surveys are indicating some improvement in the economy, concerns are building that yet another haircut to reduce total debt to a more manageable level will eventually be required, together with more bail out funds. Whether all parties to such a deal would be prepared to pour more money into Greece remains an open question. The eventual end game could therefore still be that Greece is eventually forced to exit (dubbed "Grexit") the Euro zone and to return to the drachma.
- There is also increasing concern that the contraction in Spain's economy and the very high level of unemployment of 27%, similar to the level in Greece and Portugal, could mean that all three countries could get into a downward deflationary spiral, which makes achieving fiscal correction increasingly difficult and possibly unachievable. The ECB's pledge to provide unlimited bond buying support for countries that request an official bailout means that market anxiety about these countries is likely to be subdued in the immediate future. However, the poor economic fundamentals and outlook for these economies could well mean that a storm in financial markets has only been delayed, not cancelled. Spain has resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks.

- The general election in Italy has created a highly unstable political situation where the two dominant parties have formed an unlikely coalition due to the blocking power of the new upstart Five Star anti-austerity party which has 25% of seats and has refused to enter a coalition agreement with any party. Whether such a coalition could effectively implement an agreed policy of austerity is very much open to question – which will make Italy vulnerable to swings in investor confidence.
- There could therefore be volatility in Spanish and Italian bond yields over the next year, depending on political and economic developments.
- A general election is due in Germany in the autumn of 2013. It currently looks likely that this will lead to little change in current policy on the Euro and support for peripheral countries. However, polls are indicating that 25% of the electorate now favour Germany leaving the Euro and stopping the flow of money from Germany to profligate southern countries. Any further disasters in the Euro zone could see this sentiment increase significantly.
- A bailout for Cyprus was eventually agreed in the last week of March. Slovenia, however, looks increasingly likely to be the next in line for a bailout, so their bond yields have risen. However, huge damage will be done to the Cypriot economy by the fallout from this bailout and many commentators consider it is only a matter of time before another bailout will be needed – or exit from the Euro.
- There are also concerns about the way austerity programmes are affecting economic growth in Ireland and Portugal. The Eurozone remains particularly vulnerable to investor fears of contagion if one country gets into major difficulty. Chancellor Merkel will be hoping that no major blow up occurs before the German general election which requires Germany to pour yet more money into a floundering country.

US

- There has been a marked improvement in consumer, investor and business confidence this year.
- Unemployment has continued on a steady, but unspectacular decline to 7.6%, but is still a long way from the target rate of 6.5% for an increase in the Fed. rate.
- The housing market has turned a corner, both in rising prices and the volume of house sales. Many householders are now not in negative equity.
- US equities reached all time highs, and so added to the feel good factor, until Ben Bernanke's words on tapering QE3 spooked investors.
- There has been a strong resurgence of confidence in US financial markets due to the "fiscal cliff" being largely averted or postponed. However, tax increases and cuts in Government expenditure leading to cuts in jobs, are damping the potential for recovery in growth rates.
- GDP in Q1 was disappointingly downgraded from +2.4% to a sub par +1.8%.
- The shale gas revolution is providing some solid underpinning to the US economy by enhancing its international competitiveness through cheap costs of fuel.

- There has been a start to the rehoming of manufacturing production from China to the USA as Chinese labour costs have continued their inexorable rise and new forms of high tech production have made home based production more viable and flexible.

China

- GDP growth has been disappointing in 2013. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector.
- There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates during the Government promoted expansion of credit, aimed at protecting the overall rate of growth in the economy since the Lehmans crisis.
- Since the change of national leadership, the new leaders have taken action to test the robustness of the banking system which has caused a rise in fear that there could be a credit crunch looming up in China.

Japan

- The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, has quickly evaporated as the follow through measures to reform the financial system and introduce other economic reforms, appears to have stalled.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. Key areas of uncertainty include:

- The potential for a significant increase in negative reactions of populaces in Euro zone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable.
- Problems in other Euro zone heavily indebted countries could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate growth in developed economies, especially the Euro zone and Japan.
- The potential for weak growth or recession in the UK's main trading partners - the EU and US.
- The impact of the UK Government's austerity plan in dampening confidence and growth.
- Geopolitical risks e.g. Syria, Iran, North Korea

However, there is particular potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates, as follows: -

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- A renewed increase in investor confidence that robust world economic growth is firmly expected, together with a reduction or end of QE operations in the US, causing a flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on an improvement in financial stresses in the Euro zone.
- In the longer term - a reversal of QE; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and recovery of economic growth.

The overall balance of risks to economic recovery in the UK is now evenly weighted. Sector believes that the longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, the prospect of further QE has diminished but measures other than QE may be more favoured by Governor Carney if additional support is viewed as being required.

Given the generally weak outlook for economic growth, Sector sees the prospects for any increase in Bank Rate before 2015 as limited. Indeed, the first increase could be even further delayed if the tentative signs of growth failed to be maintained.

4. GROSS AND NET DEBT

The Council's net borrowing position at 30 June 2013 excluding accrued interest was as follows:

	1 April 2013	30 June 2013
	£'000	£'000
Borrowing	358,173	357,331
Finance Leases	4,538	4,357
Service Concession Arrangements (including PFIs)	84,221	84,009
Gross Debt	446,932	445,697
Investments	(246,068)	(274,126)
Net Debt	200,864	171,571

The Council has a high level of investments relative to its gross debt due to a high level of reserves, partly built up to meet future commitments under the Private Finance Initiative schemes and future capital expenditure. The £84m of borrowing taken in 2011/12 to take advantage of the very low PWLB rates has also temporarily increased the Council's cash balances.

The current high level of investments increases the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. In the interim period where investments are high because loans have been taken in advance of need, there is also a short term risk that the rates (and therefore the cost) at which money has been borrowed will be greater than the rates at which those loans can be invested. The level of investments will fall as capital expenditure is incurred and commitments under the Private Finance Initiative (PFI) schemes are met.

5. BORROWING ACTIVITY

No new borrowing was undertaken during the first quarter of 2013/14.

The Council's debt at 30 June was as follows:

Prudential Indicator 2013/14	Limit £m	Position at 30/6/13 £m
Authorised Limit	469	446
Operational Boundary	447	446

Interest rates across the interest rate yield curve generally rose during the first quarter of 2013/14. The low points were seen in April.

PWLB certainty rates for the first quarter of 2012/13

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.91%	1.50%	2.51%	3.71%	3.84%
Date	02/04/13	08/04/13	23/04/13	08/04/13	08/04/13
High	1.20%	2.31%	3.39%	4.30%	4.41%
Date	24/06/13	24/06/13	24/06/13	24/06/13	25/06/13
Average	1.02%	1.75%	2.81%	3.95%	4.09%

6. DEBT RESCHEDULING

No debt rescheduling was undertaken during the quarter.

7. MATURITY STRUCTURE OF BORROWING

In recent years the cheapest loans have often been very long loans repayable at maturity.

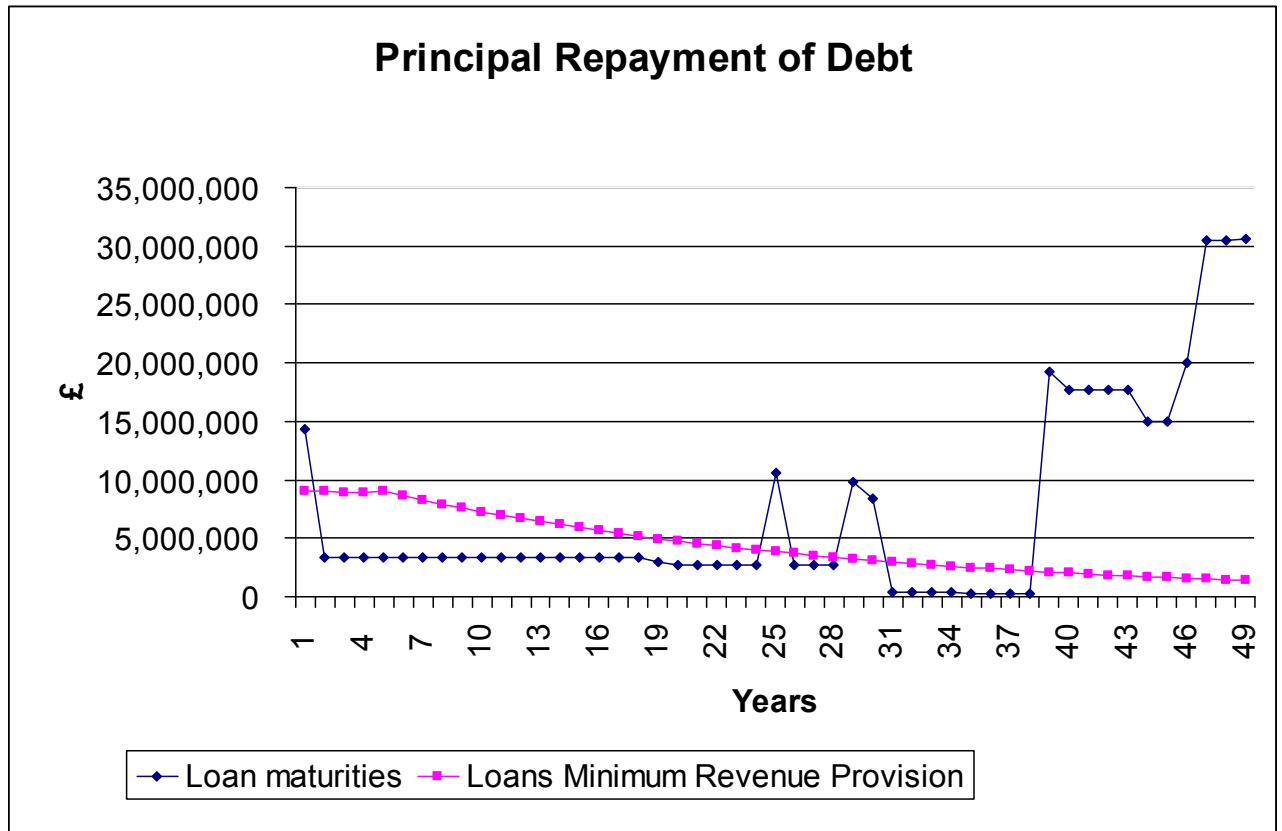
During 2007/08 the Council rescheduled £70.8m of debt. This involved repaying loans from the Public Works Loans Board (PWLB) early and taking out new loans from the PWLB with longer maturities ranging from 45 to 49 years. The effect of the debt restructuring was to reduce the annual interest payable on the Council's debt and to lengthen the maturity profile of the Council's debt.

£50m of new borrowing was taken in 2008/09 to finance capital expenditure. Funds were borrowed from the PWLB at fixed rates of between 4.45% and 4.60% for between 43 and 50 years.

A further £173m was borrowed in 2011/12 to finance capital expenditure and the HRA Self Financing payment to the Government. Funds were borrowed from the PWLB at rates of between 3.48% and 5.01%. £89m of this borrowing is repayable at maturity in excess of 48 years. The remaining £84m is repayable in equal instalments of principal over periods of between 20 and 31 years.

As a result of interest rates in 2007/08 when the City Council rescheduled much of its debt and interest rates in 2008/09 and 2011/12 when the City Council undertook considerable new borrowing 54% of the City Council's debt matures in over 40 years time.

The Government has issued guidance on making provision for the repayment of debt which the Council is legally obliged to have regard to. The City Council is required to make greater provision for the repayment of debt in earlier years. Therefore the City Council is required to provide for the repayment of debt well in advance of it becoming due. This is illustrated in graph below.



This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see sections 9 and 11). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders.

CIPFA's Treasury Management in the Public Services Code of Practice which the City Council is legally obliged to have regard to requires local authorities to set upper and lower limits for the maturity structure of their borrowing. The limits set by the City Council on 19 March together with the City Councils actual debt maturity pattern are shown below.

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	25%	25%	25%	25%	30%	30%	30%	70%
Actual	4%	1%	3%	5%	9%	13%	11%	54%

8. INVESTMENT ACTIVITY

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Investment rates available in the market have continued at historically low levels and have fallen further during the quarter as a result of the Funding for Lending Scheme.

The Council held £274m of investments as at 30 June 2013 (£246m at 1 April 2013) and the investment portfolio yield for the first three months of the year is 0.74%.

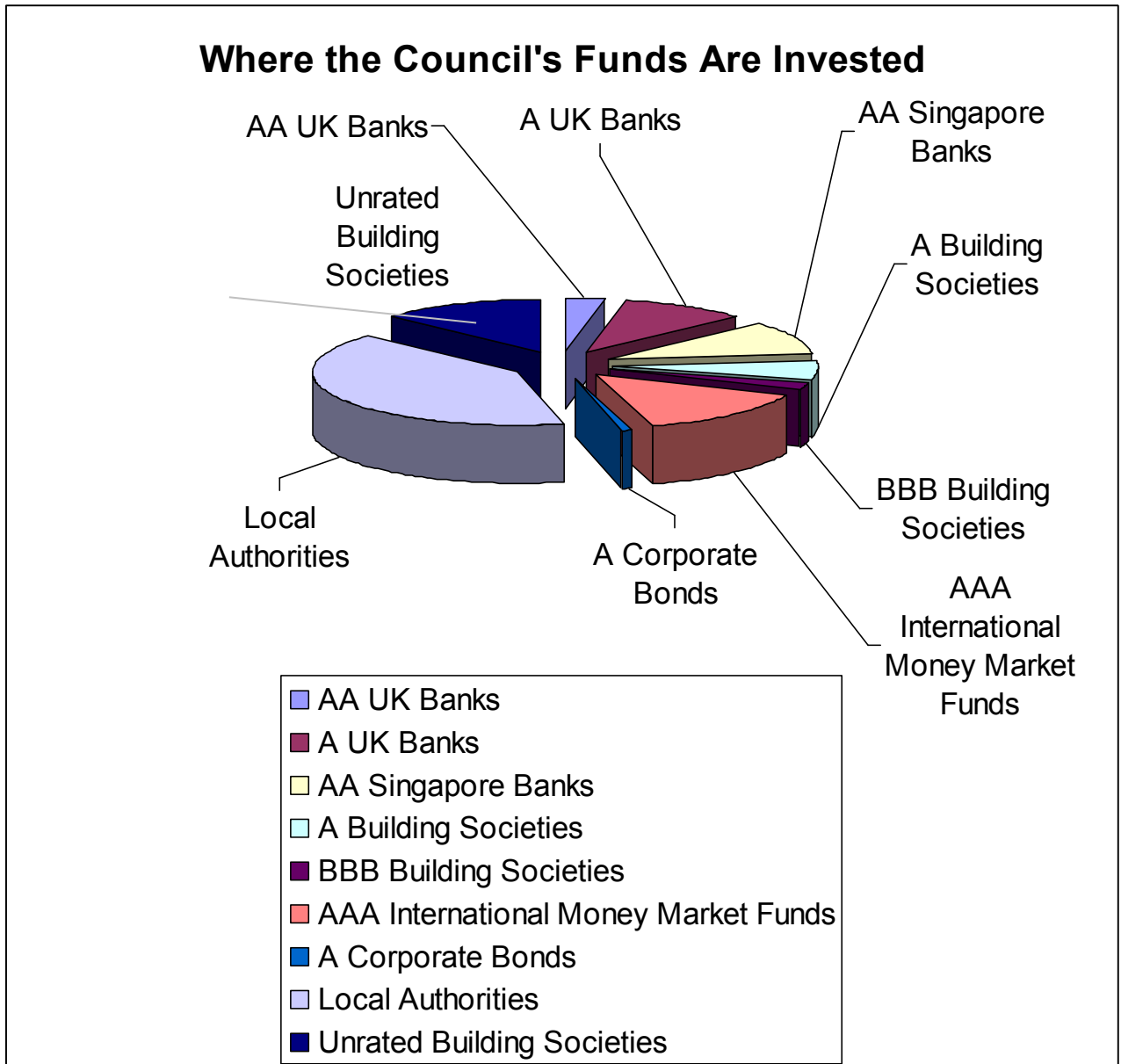
The Council's budgeted investment return for 2013/14 is £1,646k, and performance for the year to date is £111k above budget.

9. SECURITY OF INVESTMENTS

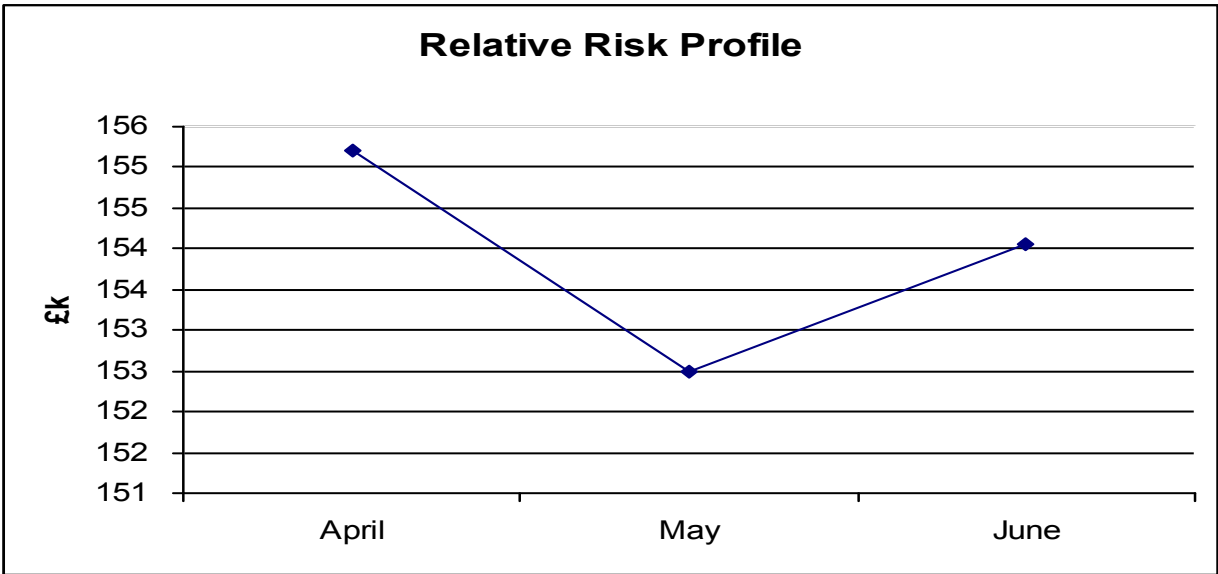
The risk of default has been managed through limiting investments in any institution to a maximum of £20m, setting investment limits for individual institutions that reflect their financial strength and spreading investments over countries and sectors.

At 30 June 2013 the City Council had on average £6.1m invested with each institution.

The chart below summarises how the Council's funds were invested at 30 June.



The credit rating agencies publish default rates for each rating category. Multiplying these default rates by the amount invested in each credit rating category provides a measure of risk that can be used as a benchmark to determine whether the City Council's investment portfolio is becoming more or less risky over time as shown in the graph below.

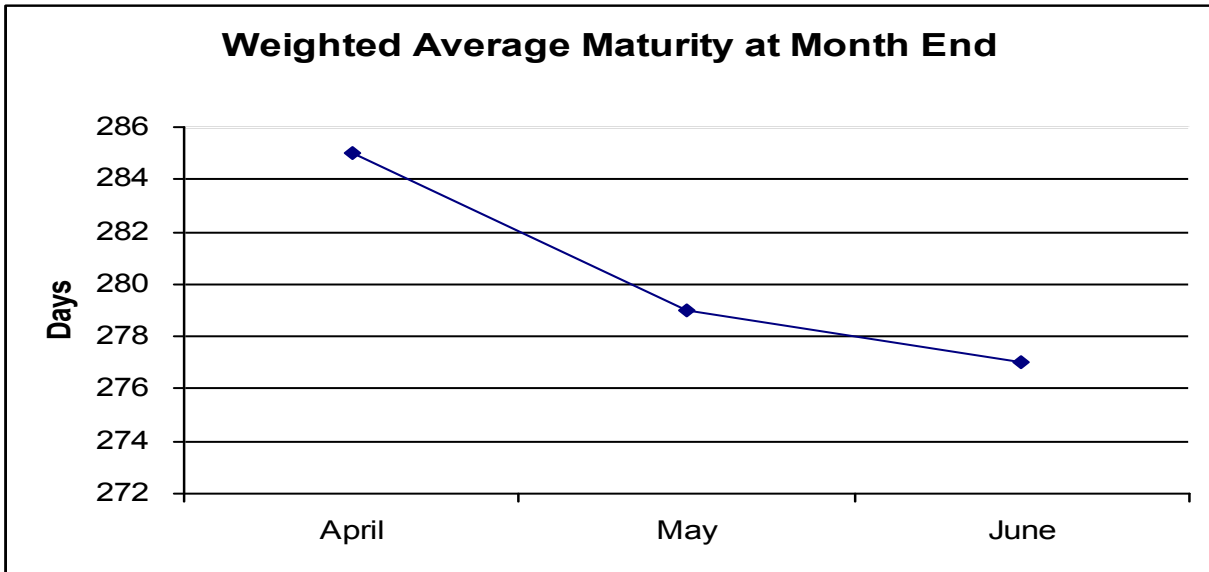


The risk profile of the investment portfolio has been stable throughout the first quarter of 2013/14.

The above graph should be read in relative terms. A default occurs when sums due are not paid on time. A default does not mean that the sum invested will be lost permanently.

10. LIQUIDITY OF INVESTMENTS

The weighted average maturity of the City Council's investment portfolio started at 285 days in April and decreased to 277 days in June. This is shown in the graph below.



The 2013/14 Treasury Management Policy seeks to maintain the liquidity of the portfolio, ie. the ability to liquidate investments to meet the Council's cash requirements, through maintaining at least £10m in instant access accounts. At 30 June £39.7m was invested in instant access accounts. Whilst short term investments provide liquidity and reduce the risk of default, they do also leave the Council exposed to falling interest rates.

Under CIPFA’s Treasury Management Code it is necessary to specify limits on the amount of long term investments, ie. Investments exceeding 364 days that have maturities beyond year end in order to ensure that sufficient money can be called back to meet the Council’s cash flow requirements. The Council’s performance against the limits set by the City Council on 19 March 2013 is shown below.

Maturing after	Limit	Actual
	£m	£m
31/3/2013	218	62
31/3/2014	208	20
31/3/2015	198	5

11. INTEREST RATE RISK

This is the risk that interest rates will move in a way that is adverse to the City Council’s position.

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for fixed interest rate exposures. Fixed interest rate borrowing exposes the Council to the risk that interest rates could fall and the Council will pay more interest than it need have done. Long term fixed interest rate investments expose the Council to the risk that interest rates could rise and the Council will receive less income than it could have received. However fixed interest rate exposures do avoid the risk of budget variances caused by interest rate movements. The Council’s performance against the limits set by the City Council on 19 March 2013 is shown below.

	Limit	Actual
	£m	£m
Maximum Projected Gross Borrowing – Fixed Rate	355	357
Minimum Projected Gross Investments – Fixed Rate	(35)	(82)
Fixed Interest Rate Exposure	320	275

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes also require local authorities to set upper limits for variable interest rate exposures. Variable interest rate borrowing exposes the Council to the risk that interest rates could rise and the Council's interest payments will increase. Short term and variable interest rate investments expose the Council to the risk that interest rates could fall and the Council's investment income will fall. Variable interest rate exposures carry the risk of budget variances caused by interest rate movements. The Council's performance against the limits set by the City Council on 19 March 2013 is shown below.

	Limit	Actual
	£m	£m
Minimum Projected Gross Borrowing – Variable Rate	-	-
Maximum Projected Gross Investments – Variable Rate	(320)	(192)
Variable Interest Rate Exposure	(320)	(192)

The City Council is particularly exposed to interest rate risk because all the City Council's debt is made up of fixed rate long term loans, but most of the City Council's investments are short term. Future movements in the Bank Base Rate tend to affect the return on the Council's investments, but leave fixed rate long term loan payments unchanged.

The risk of a 0.5% increase in interest rates to the Council is as follows:

<u>Effect of +/- 0.5% Rate Change</u>	2013/14	2014/15	2015/16
	£'000	£'000	£'000
Long Term Borrowing	-	2	55
Investment Interest	(82)	(677)	(724)
Net Effect of +/- 0.5% Rate Change	(82)	(675)	(669)

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Agenda item: **15**

Decision maker: Governance and Audit and Standards Committee, 26th September 2013
Subject: Performance Management Update - Q1, 2013-14
Report by: Head of HR, Legal and Performance
Wards affected: N/A
Key decision (over £250k): N/A

1. Summary

- 1.1 This performance report provides a summary of information received as part of quarter one reporting for 2013-14, and an indication of how work around cost benchmarking will be taken forward.

2. Purpose of report

- 2.1 To inform members of performance issues arising in the first quarter of the 2013-14 reporting period, and update on work relating to cost benchmarking.

3. Recommendations

The Governance and Audit Committee are asked to note the report and comment on:

- a) Performance issues as set out in section 4;
- b) The approach to cost benchmarking set out in section 7.

4. Context

- 4.1 As previously reported to the G&A&S committee, Heads of Service have produced a series of business plans, summarised as "Plans on a Page" that are the bedrock of performance monitoring in the organisation. These summary plans generally contain:
- a statement of the way in which the service will contribute to shaping the great waterfront city
 - the 5-7 most critical things the service will deliver in the coming year
 - the key KPIs for the service
 - any other requirements from their Strategic Director (for example, risks)

4.2 For the first quarter of the reporting period, Heads of Service were asked to provide performance reports against these summary plans. Issues raised included:

- **Adult Social Care** - There have been a number of highlights, with the completion of the Caroline Square show flat, and the assumption of lead agency responsibility for learning disability services. However, there are concerns about the number of people still at home 90 days after entering intermediate care, and around the reduction in Direct Payment clients (although some measures are being introduced which should improve that). There are also a number of s113/s75 agreements which need finalising.
- **Corporate Assets, Business and Standards** - There have been highlights in relation to assets, with the disposal on Merefield House complete, offers received for Greatham Street, and expressions of interest in for the Brunel Wing of the Civic Offices. However, it has not been possible to recruit to a post crucial to the delivery of asset management objectives. There has been a great deal of Environmental Health and Trading Standards activity, and KPIs around contracts for supported employment are performing well.
- **Customer, community and democratic services** - Design revenue is on the increase, and there is generally good performance across the authority in relation to Equality Impact Assessment compliance, although some areas are of concern. Lack of an agreed organisational approach to income generation is seen as a challenge.
- **Children's Social Care and Safeguarding** - There has been an increase in Common Assessment Frameworks completed since the introduction of the Joint Action Team, but some concern expressed in the Peer Review that the JAT was functioning more as a gatekeeping function than a gateway service, and this needs consideration. Whilst core assessments are being completed on time, timeliness has slipped on some open cases. There is lots of positive work in relation to looked after children (specifically in relation to permanence) and care leavers. Some important recruitments have been completed, including the Principal Social Worker to take forward the Social Work Matters agenda, and a LADO to support investigations.
- **Education and Strategic Commissioning** - Provisional GCSE results released in August show sustained momentum in the work to improve Portsmouth schools, with several schools gaining in the Gold Standard (5+ A* - C including English and Mathematics). The city has had an upwards trend each year since 2009, holding steady at 50% since last year after a leap of almost 7% from 2011. This year, it appears to be reflecting a nationwide downward trend in scores (England down from 59.4 to 58%). However, there are still challenges in improving education in the city, with four schools moving into special measures. Core challenges in relation to education PIs are the impact of revised Ofsted frameworks and the new

curriculum. There are also challenges expected around the resourcing of SEN support, and the impact of reforms. Work has concluded on the early support offer to be in place for September, and there are still very promising indicators in this area, although the Early Intervention Audit remains a challenge, and there will be a need to address the quality of childminding in the city (a function which reverted to the local authority in Q1).

- **Housing and Property Services** - the delivery of the 5 year acquisition and new build development plan is underway.
- **HR, Legal and Performance** - Despite a great deal of activity to proactively tackle staff sickness levels, there has been little movement, although it is expected that it will take time to see changes in the PI. There has been an improvement in the legal support provided for child protection cases, with more permanent solicitors in place and reduced locum support, although some legacy cases are still in the system.
- **Revenues and Benefits** - Core service standards have been maintained well in the face of change, with the exception of processing for new HB claims, and an improvement plan is in place for this. Council Tax collection is slightly (0.8%) below plan, although income exceeds that collected in the same period last year. There have been improvements in levels of staff sickness. It is expected that future budget pressures will impact on some of the PIs, specifically the protection of HB subsidy and tax collection. There remains a great deal of uncertainty over the implementation and impact of Universal Credit and the wider welfare reform agenda.
- **City Development and Culture services** - Q1 has seen the implementation of structure changes for the new service. Planning is now well underway for the D-Day 70th anniversary in 2014, and some bids for funding have been successful. A date has been confirmed for a Portsmouth inward investment showcase (November 26th) in London and planning for this is underway. Development of income generation opportunities continues, including wedding venues.
- **Health, Safety and Licensing** - there are some promising trends emerging in relation to community safety, with overall crime down, and particular reduction in arson and criminal damage. In relation to substance misuse, there has been a reduction in alcohol-related hospital admissions, and reconvictions for offenders subject to interventions for alcohol, although this picture is not repeated in relation to drugs. Regarding public health activity, a full change programme is established that looks at a range of issues including budgets, delegations, business continuity and structure, and alongside this, work is ongoing to change the focus on delivery to ensure mandated services provided, but that the public health outcomes are supported in the ongoing work of the authority.

5. Areas of development emerging from the model

- 5.1 The reports, reflecting the plans on a page, were received in a variety of formats, and included varying levels of detail. Overall, they were more

qualitative than quantitative, with little reference to performance indicators and more reference to project milestones for example, or activity levels. Whilst this is understandable, it does not necessarily assist in understanding where something is going well, or not.

- 5.2 Services in the "people" directorate adopted a common format which took each service priority and asked for commentary on highlights, areas that need watching, and areas for improvement. To provide some sort of consistency, reports from other services were dropped into this template, and it is a helpful way of presenting the information. It has therefore been agreed that future reporting will be done in this common format. More work will also be carried out in Directorate Management Teams to provide challenge and quality assurance to the reports, enhancing the rigour of the performance reporting.

6. Developing the strategic model

- 6.1 The previous report to G&A&S noted that there were strategic areas for development in the performance management model for the organisation, notably:

- The need to strengthen the messages around the great waterfront city goal, and ensure that everyone can understand how they contribute to what the organisation is trying to achieve.
- The need to ensure that services are working together and achieving maximum impact on cross-cutting issues, such as sustainability, raising expectation, tackling poverty or more internally focused areas such as corporate transformation
- The need to be clear on our future programme for transformation
- The need to reconcile short-term pressures and solutions with longer term development
- The view of the customer

- 6.2 In order to strengthen these areas, a single corporate summary is being developed that will guide the development of service level thinking, and provide the platform for performance management at a strategic level.

7. Value for money and cost benchmarking

- 7.1 In relation to issues of Value for Money, it was reported to the last committee that strategic directors had reinforced that it is legitimate and reasonable for questions to be asked in respect of the relative levels of performance being achieved by services for the money spent, and that comparative data is a helpful way of understanding this issue.
- 7.2 There are clearly difficulties with some of the benchmarking data available, namely that we are not necessarily comparing like for like, and particularly that it is hard to find similar areas of provision around discretionary services.

Nonetheless, it was agreed that further work should be done in this area with an aim to help inform future budget discussions, and that in the absence of alternative credible information and judgement from services, the data available in the CIPFA Value for Money toolkit should be presented. It was noted that information about service cost and performance over time would in itself provide a valid point of comparison. It was suggested that outcomes of VFM work would be presented to G&A&S committee in the coming months.

- 7.3 There are sources of comparative data that may indicate where we are spending more (or less) than comparable authorities. This data may or may not take into account the level of performance being achieved. So, for example the CIPFA VFM toolkit cross-references data and performance, whereas the Audit Commission Value for Money profiles look at cost comparisons. Clearly, these sources do not provide complete coverage of our activities, but are a useful starting point. There are gaps around support services and any number of activities that are discretionary, although where other useful data can be identified, we should use it.
- 7.4 We need to approach the data wisely. There needs to be a high level examination of the data to ensure that there are no obvious anomalies distorting cost data. However, once obvious technical issues are discounted, analytical time should not be spent mining the numbers for ultimately insignificant caveats, but should instead be used for understanding how lower costs are being achieved, and whether we could learn from other council's methods.
- 7.5 Strategic directors have agreed that the Strategy Unit will complete a high level VFM analysis for services using appropriate data including Audit Commission' value for money profiles, highlighting savings that would result if PCC could reduce its unit cost to the average unit cost within the comparator group. Analysis will be shared with Heads of Services and respective Finance Managers who will be asked to work together to identify areas where there are possible savings opportunities. Contact will be made with key councils to discuss ways of working and see if there is scope to learn from their approach and provide our services in a different way. The findings of this exercise will be reported back to Strategic Directors, Portfolio holders and G&A&S committee.
- 7.6 The rigour of this approach should represent a step forward in the use of comparative data in the authority as means to deliver improvement, and should provide comfort to members that the authority is delivering good value for money.

8. Equality impact assessment (EIA)

- 8.1 An Equality Impact Assessment will be maintained alongside the

development of the performance management framework to ensure that full consideration is given to equality issues. Any equality matters arising through value for money consideration will be considered as a discrete process, as separate EIAs will be completed for these areas of work.

9. Legal implications

9.1 The report has incorporated legal implications and accordingly there are no other immediate legal implications arising from this report.

10. Head of finance's comments

10.1 There are no financial implications to bring to member's attention at this stage. However, it should be noted that there could be further financial implications following further exploration of any of the performance issues raised in this report, and related future reports could result in financial implications. These will be flagged to members at the appropriate time.

Signed by: Jon Bell, Head of HR, Legal and Performance

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1. reports to, and minutes of, SDB meetings	Strategy Unit
2. Summary business plans	Strategy Unit

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by Governance and Audit Committee on 27th June 2013.

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Signed by:

Agenda Item 16

Agenda item:

Title of meeting: Governance and Audit and Standards Committee
Date of meeting: Thursday 26 September 2013
Subject: Annual Governance Statement 2012/13
Report From: Meg Southcott, Strategy Adviser, Strategy Unit
Wards Affected: None
Key Decision (over £250K): No

1. Purpose of Report

1.1. The purpose of this report is to:

- a) Provide an update on progress being made against the key governance issues, as highlighted in the 2011/12 Annual Governance Statement.
- b) Share the updated Local Code of Governance
- c) Seek Members' approval of the Annual Governance Statement (AGS) for signature by the Leader of the Council and the Chief Executive.

2. Recommendations

2.1. It is recommended that the Governance and Audit and Standards Committee:

- a) Note the progress made against the 2011/12 annual governance issues as set out in **Appendix A**.
- b) Approve the 2013 Local Code of Governance in **Appendix B** for publication.
- c) Approve the 2012/13 Annual Governance Statement in **Appendix C** for publication (subject to any amendments requested by the committee).

3. Background

3.1. Authorities are expected to publish the Annual Governance Statement (AGS) for 2012/13 with their Statement of Accounts. The CIPFA/SOLACE framework for the Annual Governance Statement requires the AGS to be signed by the most senior Officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent).

3.2. The Annual Governance Statement (AGS) is a statutory document, which provides an overview of the governance arrangements within the Council. The purpose of the Annual Governance Statement is to demonstrate that systems and processes are in place to ensure that Council business is conducted lawfully and in accordance with proper standards. It also demonstrates that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

3.3. The Annual Governance Statement (AGS) outlines the significant governance issues currently facing the Council and acknowledges the Council's responsibility to secure continuous improvement in the way in which its functions are exercised.

4. Progress Against the 2011/12 Annual Governance Issues

- 4.1. On 28th June 2012, the Governance and Audit and Standards Committee approved the 2011/12 Annual Governance Statement. As part of that meeting, the Committee requested regular progress updates on actions to mitigate the risks of the governance issues.
- 4.2. Progress has been made in tackling the governance issues identified in the 2011/12 Annual Governance Statement. A summary of progress can be found in **Appendix A**. Although good progress has been made, it is proposed that the majority of the issues roll over into the 2012/13 Annual Governance Statement to allow further work to take place, with the exception of two issues, listed below:

Governance Issue	Assurance
The 2010 OFSTED inspection in Safeguarding and Looked After Children (LAC) identified areas for immediate improvement	A peer review of Safeguarding and LAC took place in 2012, superseding the OFSTED actions. All actions are complete and any issues will continue to be monitored and addressed through a sub-committee of the Portsmouth Safeguarding Children Board.
Lack of Financial Services resource with regard to the closedown programme and inaccuracies within the group accounts	The resource issue has been resolved and performance issue related to inaccuracies within the group accounts addressed.

5. Updating the Local Code of Governance

- 5.1. Portsmouth City Council's Local Code of Governance was last updated in March 2010. With the support of relevant officers, Portsmouth City Council's Local Code of Governance has been updated to reflect current practice. A copy of which can be found in **Appendix B**. Once approved, the code will be uploaded onto the Council's website. The Local Code outlines how the Council is accountable to its users, stakeholders and the wider community and describes how its functions are carried out through its members, employees, procedures and processes by which it undertakes its work. It reflects the six core principles set out in the Society of Local Authority Chief Executives and Senior Managers (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) 2007 Good Governance Framework, which is aimed at helping local authorities to develop and maintain sound governance arrangements.
- 5.2. In March 2013, Portsmouth City Council established nine internal corporate governance controls, which all staff are expected to comply with. Each control has been assigned a Lead, who is responsible for ensuring compliance and a Policy Holder, who is responsible for providing the tools and mechanisms for Leads to effectively monitor compliance. Internal control questionnaires are sent to Heads of Service on an annual basis to evaluate overall compliance. The nine controls have been incorporated into the Local Code to illustrate how they support the CIPFA/SOLACE good governance principles and strengthen the Council's overall governance arrangements.

6. Finalising the 2012/13 Annual Governance Statement

- 6.1. The content of the 2012/13 Annual Governance Statement has been updated with input from relevant officers to ensure that current practice is reflected. The 2012/13 Annual Governance Statement can be found in **Appendix C**.
- 6.2. The following sources have been reviewed for potential significant governance issues:
- a) AGS Significant Governance Issues (2011/12)
 - b) Internal control questionnaires (March 2013)
 - c) Self-assessment of the G&A&S Committee (March 2013)
 - d) Recommendations from the Corporate Peer Challenge (March 2013)
 - e) Recommendations from the Safeguarding Peer Review (November 2012)
 - f) Recommendations from the LA focused Ofsted Inspections (February 2013)
 - g) Information Governance Audit/Data Protection Breaches (June 2013)
 - h) Annual Internal Audit Report for the 2012/13 Financial Year
 - i) External District Audit Report (2012)
 - j) Office of Surveillance Commissioners RIPA Report (2013)
 - k) City Deal Bid (2013)
 - l) National legislation transfer of additional responsibilities to LAs (April 2013)
 - m) Annual Complaints/Members Complaints (2012)
 - n) Employee Opinion Survey/Pulse Results (May 2013)
 - o) The Transformation Programme - Next Steps (2013)
- 6.3. The 'Significant Governance Issues' section of the 2012/13 Annual Governance Statement has been finalised and actions to address them have been put in place (see table on pages 11-18). This year more issues have been identified than in previous years primarily because of a new approach recently introduced.
- 6.4. Progress in tackling the issues will continue to be reported to the committee on a regular basis and monitored by the Corporate Governance Group on a quarterly basis. A progress update request timetable has been created and will be shared with leads to ensure timely progress updates are received.
- 6.5. Further work to improve compliance with our internally agreed corporate governance controls will continue to take place and Heads of Service will be issued with personalised action plans to address compliance issues highlighted through in the internal control questionnaire responses. In March 2013 Heads of Services were issued a 'Good Governance Guidance' handbook outlining key responsibilities, measures of compliance and tools and support available to ensure effective monitoring of compliance. The guidance document will be refreshed at least annually to reflect any policy/procedural changes.

7. Equality Impact Assessment (EIA)

- 7.1. An equality impact assessment is not required as the recommendations don't have a negative impact on any of the protected characteristics as described in the Equality Act 2010.

8. Legal Implications

- 8.1. Legal considerations have been taken into account in the preparation of this report and where appropriate embodied within it.

9. Head of Finance Comments

- 9.1. There are no financial implications arising from the recommendations in this report.

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Signed by: Jon Bell
Head of HR, Legal and Performance

Appendices:

Appendix A	Summary of Progress Against the Issues Identified in the 2011/12 Annual Governance Statement
Appendix B	Local Code of Corporate Governance
Appendix C	Final Draft - 2012/13 Annual Governance Statement

Background list of documents: Section 100D of the Local Government Act 1972
The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Annual Governance Statement (2011/12)	Strategy Unit
Self-Assessment G&A&S Checklist (March 2013)	Strategy Unit
Analysis of Internal Control Questionnaires (March 2013)	Strategy Unit
Good Governance Guidance (March 2013)	Strategy Unit
Recommendations from the Corporate Peer Challenge (March 2013)	Strategy Unit
Recommendations from the Safeguarding Peer Review (November 2012)	Strategy Unit
Recommendations from the LA focused Ofsted Inspections (February 2013)	Strategy Unit
Information Governance Audit/Data Protection Breaches (June 2013)	Information Governance
Annual Internal Audit Report for the 2012/13 Financial Year	Internal Audit
External District Audit Report (2012)	Strategy Unit
Office of Surveillance Commissioners RIPA Report (2013)	Internal Audit
City Deal Bid (2013)	Strategy Unit
National legislation transfer of additional responsibilities to LAs (April 2013)	Strategy Unit
Annual Complaints/Members Complaints (2012)	Corporate Complaints
Employee Opinion Survey/Pulse Results (May 2013)	Corporate Comms
The Transformation Programme - Next Steps (2013)	Strategy Unit

APPENDIX A - Progress Against 2011/12 Governance Issues - September 2013

Period: June - September 2013																																		
Governance issue	Actions to address	Measures of success	Lead	Progress/issues to highlight																														
1-Weaknesses in people management	LaMP programme	By September 2012, 50% (336) managers to have completed training	Julie Barratt / Fiona Morrison	<p>The LAMP programme has come to the end of its agreed delivery timescale. Final attendance figures for the programme were 57% (337) (based on current manager numbers).</p> <table border="1"> <thead> <tr> <th>Service</th> <th>% attendance</th> </tr> </thead> <tbody> <tr> <td>ASC</td> <td>50</td> </tr> <tr> <td>CSC</td> <td>65</td> </tr> <tr> <td>City Dev & Culture</td> <td>51</td> </tr> <tr> <td>Comm Safety & HIDs</td> <td>89</td> </tr> <tr> <td>Corp Assets, Business & Standards</td> <td>48</td> </tr> <tr> <td>CCDS</td> <td>95</td> </tr> <tr> <td>Education</td> <td>36</td> </tr> <tr> <td>Finance</td> <td>78</td> </tr> <tr> <td>Housing & Property</td> <td>18</td> </tr> <tr> <td>HR, L&P</td> <td>100</td> </tr> <tr> <td>IS</td> <td>100</td> </tr> <tr> <td>Revs & Bens</td> <td>76</td> </tr> <tr> <td>T & E</td> <td>82</td> </tr> <tr> <td>Totals</td> <td>57%</td> </tr> </tbody> </table> <p>Moving forwards there is continuing need to support leadership & management development. Areas under consideration are around manager skills in coaching and using 360⁰ appraisals.</p> <p>A report will be taken to October 2013 Employment Committee discussing how services are using these results to influence the way they work.</p>	Service	% attendance	ASC	50	CSC	65	City Dev & Culture	51	Comm Safety & HIDs	89	Corp Assets, Business & Standards	48	CCDS	95	Education	36	Finance	78	Housing & Property	18	HR, L&P	100	IS	100	Revs & Bens	76	T & E	82	Totals	57%
		Service			% attendance																													
ASC	50																																	
CSC	65																																	
City Dev & Culture	51																																	
Comm Safety & HIDs	89																																	
Corp Assets, Business & Standards	48																																	
CCDS	95																																	
Education	36																																	
Finance	78																																	
Housing & Property	18																																	
HR, L&P	100																																	
IS	100																																	
Revs & Bens	76																																	
T & E	82																																	
Totals	57%																																	
		Good levels of engagement as measured through Employee Opinion Survey																																

APPENDIX A - Progress Against 2011/12 Governance Issues - September 2013

Period: June - September 2013				
Governance issue	Actions to address	Measures of success	Lead	Progress/issues to highlight
	Reviewed PDR process	100% staff completed a PDR by end of financial year (2013) PCC review presented to Employment Committee by Oct-12	Julie Barratt	A report regarding the completion levels of PDR will be taken to Employment Committee in December 2013. Review of PDR policy presented to, & agreed by, Employment Committee in December 2012. The annual review of the success of the implementation of the policy will be presented in December 2013 (as above).
2-Adhering to equalities duties	Monitoring programme of EIAs that need reviewing; new policies that need EIAs	% compliance EIAs across all services	James Sandy/ Iwona Defer	As per the report that that was taken to the G&A&S Committee meeting in June 2013, most services have completed 100% of their EIAs, and there has been a further improvement in the compliance since the previous report of January 2013. This can be attributed to the persistent and effective monitoring as well as advice and support by the Equality & diversity officers to the services. The actions identified under the Single Equality Scheme (SES) Plan are monitored by the Equality and Diversity officers on an annual basis as monitoring on a bi-annual basis has proved unfeasible. SES Plan is currently being updated in accordance with the service business plans. The Fairness and Equalities Group (FEG) has effectively been disbanded. An Equalities Project Group, which comprises of officers and representation from each political party has been created to: <ul style="list-style-type: none"> • Review current guidance, Council duties and the national policy context. • Feedback on the peer challenge findings. • Consider lessons from recent consultation activities. • Evaluate the previous approach of the FEG • Inform the revision of the Council's Equality & Diversity Strategy (2010-13) & Single Equality Scheme (SES) • Review the current Equalities Impact Assessment process and how it is monitored and enforced.
	Equalities strategy in place and monitoring through the Single Equality Scheme	Completion of actions to timescales in Equalities Strategy and regular monitoring of performance against the Single Equality Scheme		

APPENDIX A - Progress Against 2011/12 Governance Issues - September 2013

Period: June - September 2013				
Governance issue	Actions to address	Measures of success	Lead	Progress/issues to highlight
3-Not all CRB checks are reviewed when they should be and some temporary staff working with vulnerable groups without CRB checks	<p>HR to reemphasise message with managers</p> <p>Provide a list on which jobs should have CRB checks</p> <p>Assess how old CRB checks are and associated risks</p>	<p>All staff have up-to-date CRBs.</p> <p>All managers use the proper process of recruitment, including the use of the relevant temporary agency</p>	Julie Barratt	CRB changes of 1 st September have been communicated to Strategic Directors. Recruitment is ensuring the relevant guidance and advice is being issued to the manager and candidate as required, checks are undertaken for casual employees, and the recruiting manager is aware of the correct process to follow. The Updated DBS service has come into force on the 17 th June 2013; This is a voluntary candidate choice to engage with that service. A full list of jobs is not possible to compile as eligibility for a DBS is dependent on duties not title and a post can move into eligibility as well as out over time with changes to how a service operates. Recruitment assesses each job profile as it is re-written / recruited to for eligibility.
4-Weaknesses in business continuity (BC) planning Page 287	<p>BC plan template</p> <p>Corporate BC Strategy</p> <p>Corporate BC working group</p>	100% services have adequate business continuity plans in place that are reviewed on a regular basis.	Kate Scott	All services have business continuity plans in place. However, Housing Management's plan is being updated to include new Asset Management Function. A Table top exercise was held for Adult Social Care in May 2013. Some minor improvements have been identified as a result of this and these are nearing completion. A further exercise with the wider management team will take place on the 19 August 2013. A table top exercise has been booked for Information Services and is due to take place in Oct 2013. Tabletop exercises have been requested for Revenues and Benefits, City Development and Cultural Services, and Support Services. Progress update requested from Transport and Environment as to plan review status.
5-Results of OFSTED inspection in safeguarding and Looked After Children highlight areas for immediate improvement	Action plan in place	All immediate actions completed	Stephen Kitchman	A peer review of safeguarding took place w/c 15 October 2012 and the peer review action plan has superseded the OFSTED action plan. A report on the outcomes of the review was presented to an informal Cabinet meeting on 05 November 2012. The plan has been monitored via the Monitoring and Evaluation committee of the Portsmouth Safeguarding Children Board. A 0.5 LADO has been recruited to improve allegations management and increase capacity and focus on raising awareness of the role and associated procedures with agency partners.

APPENDIX A - Progress Against 2011/12 Governance Issues - September 2013

Period: June - September 2013				
Governance issue	Actions to address	Measures of success	Lead	Progress/issues to highlight
6-Non-completion of financial rules training, resulting in non-compliance with Financial Rules	PDR prompts completion/refresh of financial rules training	100% staff have completed financial rules training	Chris Ward, Lyn Graham	Approximately 2,700 members of staff have completed the financial rules training in the last 3 years (out of approximately 3,500 staff employed by the council excluding schools), although there is currently no easy way of finding out who has not undertaken financial rules training. Parts A-D have been finalised and will be loaded onto PolicyHub in September 2013. Parts E-G will be finalised and uploaded by January 2014, with training available from April 2014.
	Revising Financial Rules			
7-Lack of Financial Services resource with regard to the closedown programme	Weekly monitoring by project team chaired by s151 officer	The closedown programme is completed adequately. No additional issues highlighted in the Audit Commission Plan.	Chris Ward	As reported in the Annual Governance Report from the Audit Commission to the G&A&S Committee on 27 th September 2012, "Overall the quality of the accounts and supporting working papers was much improved with the notable exception of the group accounts." The Group Accounts show the combined financial position of the Portsmouth City Council Group which principally consists of Portsmouth City Council, and its subsidiary, MMD (Shipping Services) Ltd. The Group also includes a share in Portchester Crematorium and in Portsmouth Harbour Renaissance Limited. As such they largely mirror the single entity accounts of the City Council. During the audit, the auditors found a significant number of errors in the Group Balance Sheet and Group Movement in Reserves Statement. The underlying cause of the problem was a performance issue that has been addressed.
	Increased resources for quality assuring the Financial Statements			
8-Not all services undertaking comprehensive succession planning	Currently no action in place to address	All services have processes in place for identifying officers with specialist skills, and transferring those skills to other officers	Julie Barratt	The practice of succession planning is currently variable across the council's services. There are some areas of good practice where key skills have been identified and 'grow your own' development programmes put in place to ensure specialist skills are developed for the future. A revised approach to workforce planning has recently been developed which will seek to identify and share areas of good practice and encourage the development of robust succession planning across all services.
		Key skills are not lost when key members of staff leave		

What Is Corporate Governance?

Corporate governance is a term used to describe the way that organisations direct and control what they do. For local authorities, it includes the systems, policies and processes, as well as the cultures and values that underpin a Council’s arrangements for effective: leadership, management, performance, delivery of positive customer outcomes, community engagement and stewardship of public money.

Why Do We Have a Local Code of Governance?

Portsmouth City Council has developed and adopted a Local Code of Governance, which sets out the organisation's governance arrangements and reflects the six core principles set out in the SOLACE/CIPFA Good Governance Framework (2007). The code demonstrates how the Council achieves good corporate governance and provides hyperlinks to supporting documents. Portsmouth City Council has established nine internal corporate governance controls, which have been incorporated into the Local Code of Governance (see **orange** text). The controls have been chosen on the basis that they support the six core principles and are deemed critical to meeting the organisations business needs. All services are required to monitor and evidence compliance against them. The controls and local code will be reviewed on an annual basis and used to inform the production of the Annual Governance Statement, which is approved by the Governance and Audit and Standards Committee.

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Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(1)	Core Principle: Focusing on the purpose of the Authority; outcomes for the Community and creating and implementing a vision for the local area.		
(1.1)	Supporting Principle: Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcomes for citizens and service users.		
(1.1.1)	Develop and promote the authority purpose and vision.	<ul style="list-style-type: none"> -PCC's organisational goal (established in 2012) is, 'working together to shape the great waterfront City'. The new simplified council goal has been agreed by Senior Managers and reflects the fact that everything the council does should help to make the city a better place and improve life outcomes for the City's residents. -PCC has a Regeneration Strategy (Shaping the Future of Portsmouth) that focuses on supporting economic growth, innovation and enterprise and enhancing the City's competitiveness. - Objectives are clearly communicated to staff and stakeholders including partners. - All services have a business plan that reflects the vision of the authority, is actively managed with the SD quarterly, and published on 31 March annually. 	<p>Improve the governance arrangements for the Shaping the Future Programme</p> <p><u>Upload service level business plans onto PCC website (and remove corporate plan)</u></p>

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(1.1.2)	Review on a regular basis the authority's vision for the local area and its implications for the authority's governance arrangements.	-The new organisational goal is supported by nine corporate principles. These are: put customers first, provide value for money, be ambitious, use evidence to shape services, simplify, strengthen and share processes, get it right first time, support councillors as strategic leaders, value and support staff, listen and learn).	PCC website to include corporate principles.
(1.1.3)	Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners.	-Each of the council's key strategic people partnerships (the Health and Wellbeing Board , the Children's Trust and the Safer Portsmouth Partnership) have priorities and objectives set out in strategies that have been developed and agreed with the appropriate partners. They work together in an agreed way to ensure their work is underpinned by a common vision and agreed ways of working. - Each plan is underpinned by an assessment of need as set out in the Joint Strategic Needs Assessment .	Remove reference to corporate priorities
(1.1.4)	Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance.	- Flagship magazine is published 5 times a year and distributed to Portsmouth Residents. The magazine provides a useful summary of the authority's activities and achievements. -The Medium Term Resource Strategy is a high level plan that sets out the City Council's Revenue Spending Plans for the next five years to deliver the longer term aspirational Vision for Portsmouth and the medium term priorities of the City Council. -A statement of accounts is published on an annual basis, at the same time as the Annual Governance Statement.	
(1.2)	Supporting Principle: Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning		
(1.2.1)	Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available.	-Services monitor their performance on a quarterly basis. Performance measures are set out in service business plans and strategies. -The Joint Strategic Needs Assessment (JSNA) paints the 'big picture' of local needs so we can work together to improve the health and wellbeing of people in Portsmouth.	
(1.2.2)	Put in place effective arrangements to identify and deal with failure in service delivery	-The Council operates a complaints procedure to deal with failures in service delivery. -There are separate processes for people wishing to make a complaint against adult's social care , children's social care or schools . --If residents/service users are not happy with how their complaint has been handled by the Council, they can contact the Local Government Ombudsman who will investigate complaints in a fair and independent way. -Following a review of risk management, a corporate approach to managing risk is being embedded. Risk is reviewed during the quarterly performance monitoring process.	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(1.3) Supporting Principle: Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money			
(1.3.1)	Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively.	<ul style="list-style-type: none"> -Services are asked to use comparative/benchmarking data on both cost and performance, as well as any other relevant data, such as customer feedback data or trends over time in order to make a judgement on value for money, during the business planning process. If this is not provided the CIPFA Value for Money toolkit will be used to make a judgement. -The Audit Commission issue an annual value for money opinion. -In depth value for money reviews are carried out when deemed necessary. -Procurement arrangements are in place to ensure that the organisation secures the right outcomes at the right price within a collaborative and consistent manner. -Robust category management arrangements are in place to ensure the organisation maximises its spending power and minimises waste. -The Chief Finance Officer provides financial advice and ensures the authority providers prudential financial framework. - The Council's priorities and objectives are aligned to principal statutory obligations and relate to available funding. -The Council's transformation programme was initiated in 2011 to deliver efficiencies and new ways of working in order to contribute to the ongoing savings targets. The programme is managed by the Strategic Directors Board and workstreams are led by Heads of Service. 	Develop a more robust approach to understanding VfM across the organisation and embed in business planning.
(1.3.2)	Measure the environmental impact of policies, plans and decisions	<ul style="list-style-type: none"> -The impact of any decision that increases or decreases the council's carbon footprint should form part of the financial consideration as energy or fuel costs would be affected -High value procurement that goes through the procurement gateway must consider environmental sustainability as part of the gateway process, and consult with the Environmental change and sports development manager. 	
(2) Core Principle: Members and officers working together to achieve a common purpose with clearly defined functions and roles			
(2.1) Supporting Principle: Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function			
(2.1.1)	Set out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the authority's approach towards putting this into practice.	- The Council have a published City Constitution which sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for us to choose. The Constitution is divided into 16 articles which set out the basic rules governing the council's business. It provides a summary of key officer, member and committee roles and responsibilities.	Constitution needs to be updated to reflect current practice and structures
(2.1.2)	Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and senior officers.	<ul style="list-style-type: none"> -As above. -All posts have job descriptions and are banded depending on responsibilities undertaken. 	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(2.2) Supporting Principle: Ensuring that a constructive working relationship exists between elected members and officers and that the responsibilities of authority members and officers are carried out to a high standard			
(2.2.1)	Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority taking account of relevant legislation and ensure that it is monitored and updated.	-Delegations are set out in the City Constitution .	
(2.2.2)	Make the City Mayor and Chief Executive responsible and accountable to the authority for all aspects of operational management.	-Information about the current Lord Mayor of Portsmouth, a list of previous Lord Mayors and general information about the Lord Mayor's Office, its history and ceremony can be found on the PCC website . -The Chief Executive's role and responsibilities are set out in the job description and City Constitution .	
(2.2.3)	Develop protocols to ensure that the City Mayor and chief executive (or equivalent) negotiates their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.	NOT APPLICABLE	
(2.2.4)	Make a senior officer (the section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.	- The Chief Finance Officer is a key member of the Strategic Director's Board, and the S151 Officer. The Chief Finance Officer is actively involved in all major decisions, and advises on financial matters to both the Cabinet and full Council. He is responsible for leading the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times, ensuring that budgets are agreed in advance and are robust, that value for money is provided by the Council's services, and that the finance function is fit for purpose.	
(2.2.4)	Make a senior officer (usually the monitoring officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.	- The Monitoring Officer is a statutory function and ensures that the Council, its Officers, and its Elected Councillors, maintain the highest standards of conduct in all they do. The Monitoring Officer is assisted when required by appointed deputies. The role of the Monitoring Officer is set out in 12.4 of PCC's Constitution. The Monitoring Officer's legal basis is found in Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000. --The Monitoring Officer's role and responsibilities are set out in the job description.	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(2.3) Supporting Principle: Ensuring relationships between the authority, its partners and the public are clear so that each know what to expect of the other			
(2.3.1)	Develop protocols to ensure effective communication between members and officers in their respective roles.	Part 4d of the City Constitution sets out a protocol for Member/Officer relations. Within the protocol general principles of conduct, roles and responsibilities, support services, access to information, officer, correspondence, public relations and cabinet member and chairman relationships are clearly set out. The protocol guides members and officers of the council in their relations with one another in such a way to ensure the smooth running of the Council.	
(2.3.2)	Set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process including an effective remuneration panel.	<ul style="list-style-type: none"> -All staff are provided with a contract outlining the terms and conditions of their appointment. - The Council has robust pay and conditions policies and practices for employees, and structured pay scales reflecting the competencies required for each role. -An independent remuneration panel can be appointed as and when required. 	
(2.3.3)	Ensure that effective mechanisms exist to monitor service delivery	<ul style="list-style-type: none"> -Scrutiny panels are in place to challenge and review. -Service delivery and performance is monitored quarterly. 	
(2.3.4)	Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated.	<ul style="list-style-type: none"> - Key plans, strategies and proposed changes to service delivery are put out for consultation and published on the Council's website - http://www.portsmouth.gov.uk/yourcouncil/24793.html -The Medium Term Resource Strategy is a high level plan that sets out the City Council's Revenue Spending Plans for the next five years to deliver the longer term aspirational Vision for Portsmouth and the medium term priorities of the City Council. 	
(2.3.5)	When working in partnership, ensure that all partners are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority.	-For each partnership there is: A clear statement of the partnership principles and objectives; Clarity of partner roles within the partnership; Line management responsibilities for staff who support the partnership; A statement of funding sources for joint projects and clear accountability for proper financial administration; A protocol for dispute resolution within the partnership.	
(2.3.6)	Ensure that there is clarity about the legal status of the partnership and that organisations understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.	<ul style="list-style-type: none"> -The Council has defined legal agreements -Terms of references are set up and outlined key legal obligations of parties within the partnership. 	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(3)	Core Principle: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
(3.1)	Supporting Principle: Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance through		
(3.1.1)	Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect.	<ul style="list-style-type: none"> -Meetings are held in an open forum -PCC have developed a set of 'ways of working' to communicate to staff what is expected of them and what residents and colleagues and expect from staff. PCC have agreed the following 'ways of working': 1-We focus on what's important, 2-We take pride in our work, 3-We value others, and 4-We make a positive difference. More detailed information on the ways of working can be found at here (internal only). 	
(3.1.2)	Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols.	<ul style="list-style-type: none"> --PolicyHub is a new application that delivers an effective and measurable compliance operation. From updating and managing policies to knowledge assessments and reporting. It ensures the right policies and procedures get to the right people, that they become accountable by signing up to them and that the entire process is recorded and auditable. -The Council has a whistleblowing Policy, which sets out how to report concerns and how they will be handled. -Members are required to complete a code of conduct on appointment. -100% of employees complete the code of conduct upon joining the organisation. All Managers must use the appropriate procedures for dealing with misconduct. - All staff (incl volunteers/temporary posts) working with children and vulnerable adults require an enhanced criminal records check prior to appointment in line with PCC's disclosure barring policy. - All staff adhere to clear desk and clear screen practices with regards to sensitive/personal information. 	Disclosure and Barring Service Policy to be updated and uploaded onto Intranet/circulated to key staff through Policyhub.
(3.1.3)	Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.	<ul style="list-style-type: none"> -All members of the council are required by law to complete a declaration of pecuniary interests form to register their financial interests. - Members are required to declare any interests at the start of every meeting that they attend in accordance with Standing Orders. -Members and Officers are required to complete a gifts and hospitality register. -The Council operates an Anti-Fraud, Bribery and Corruption Policy, which sets out the requirements for the Council in relation to combating fraud, bribery, corruption and dishonest dealings within and against the council. -PCC follows a procurement process, to ensure the most appropriate goods and services are acquired without any bias and conflicts of interest. -All services understand our legal equalities duties, and embed them within service projects and plans. 	Update Procurement Strategy

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
		<p>-Equality impact assessments are required to be carried out on all major services and functions of the council, and all projects and policies to assess any potential adverse implications for some staff, residents and visitors.</p> <p>- The Equality and Diversity Strategy 2010-13 sets out the Council's aims to make Portsmouth a fairer and more inclusive city and the means of their delivery. The Council is working closely with partners from local public services, businesses and voluntary organisations to achieve these. Promotion of equality and championing Portsmouth's diversity are an integral part of this vision.</p>	<p>Review the EIA process</p> <p>Refresh the Equalities and Diversity Strategy</p>
<p>(3.2) Supporting Principle: Ensuring that organisational values are put into practice and are effective</p>			
(3.2.1)	<p>Develop and maintain shared values incl leadership values for the organisation and staff reflecting public expectations, and communicate these with members, staff, community and partners.</p>	<p>-The organisation has developed a set of values which should be embedded in ways of working. These include: We focus on what's important, We take pride in our work, We value others and We make a positive difference.</p>	
(3.2.2)	<p>Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.</p>	<p>-Systems of financial control are developed in line with ethical standards.</p> <p>-Financial Rules have been put in place by the s151 Officer so that the Council can meet all of its responsibilities required by law. They set the framework on how the Council manages financial dealings and are part of the City Constitution. They also set the financial standards that will ensure consistency of approach and the controls needed to minimise risks. Training on the Council's financial rules is provided to all staff.</p>	<p>Revise financial rules and ensure staff are trained on the new rules</p>
(3.2.3)	<p>Develop and maintain an effective standards committee.</p>	<p>-The Council operates a Governance and Audit and Standards Committee. Terms of reference set out the key roles and responsibilities of the committee.</p> <p>-A self-assessment of the committee's governance arrangements is completed on an annual basis.</p> <p>-Members of the committee have been given relevant training to ensure they have adequate skills and knowledge to enable an effective committee.</p> <p>-The Committee inform, review and agree the Annual Governance Statement, which includes a review of effectiveness of the system of internal control.</p>	
(3.2.4)	<p>Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority.</p>	<p>-Decision making practices are set out in the City Constitution.</p> <p>-The Medium Term Resources Strategy (MTRS) enables the council to make best use of financial, human, technological and other resources available to enable the continued provision of value for money services that meet the needs of residents, businesses and other stakeholders. Effective planning and resource management are crucial to meeting collective goals and the MTRS provides a framework of underlying principles by which resources may be allocated across the council and other relevant considerations that need to be taken into account.</p>	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(3.2.5)	In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour.	<ul style="list-style-type: none"> -Individual partnerships have terms of references. -The voluntary and community sector framework sets out how the council intends to work with the local voluntary and community sector to achieve better outcomes for local people. It builds upon the foundation of the Portsmouth Compact, which is encompassed in the framework. 	Review the compact
(4) Core Principle: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk			
(4.1) Supporting Principle: Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny			
(4.1.1)	Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisations for which it is responsible.	<ul style="list-style-type: none"> -The Council operates the following Scrutiny Panels: <ul style="list-style-type: none"> Economic development, culture & leisure scrutiny panel Education, children & young people scrutiny panel Health overview & scrutiny panel Housing & social care scrutiny panel Scrutiny management panel Traffic, Environment & Community Safety Scrutiny Panel -Each panel is governed by their own terms of reference. Topics that are chosen to be 'scrutinised' will be looked at in depth by a cross party panel of councillors. They'll assess how the Council is performing and see whether they are providing the best possible, cost effective service for people in the city. The panel's findings will be reported to the cabinet and may result in changes to the way in which services are delivered. -Service performance is reviewed on a quarterly basis at a minimum. 	
(4.1.2)	Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.	<ul style="list-style-type: none"> -Key decision meetings are held in public. -Meetings are minuted and all key decisions recorded. -Minutes of key decision meetings are uploaded onto the PCC website. -Financial rules were revised and published in 2013 	
(4.1.3)	Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.	<ul style="list-style-type: none"> -All members of the council are required by law to complete a declaration of pecuniary interests form to register their financial interests. 	
(4.1.4)	Develop and maintain an effective audit committee which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee.	<ul style="list-style-type: none"> -The Chair of the Governance and Audit and Standards committee is independent (i.e. she does not sit on any other regulatory committee). 	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(4.1.5)	Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints.	<ul style="list-style-type: none"> - The Council has a clear and transparent corporate complaints procedure for anyone wishing to make a complaint. -There are separate processes for people wishing to make a complaint against adult's social care, children's social care or schools. -If residents/service users are not happy with how their complaint has been handled by the Council, they can contact the Local Government Ombudsman who will investigate complaints in a fair and independent way. -Complaints are dealt with in a timely manner, responded to effectively, and outcomes recorded. 	
(4.2)	Supporting Principle: Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs		
(4.2.1)	Ensure that those making decisions, whether for the authority or the partnership, are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical and financial issues and their implications.	<ul style="list-style-type: none"> -All new members are required to attend a mandatory induction programme, which covers the code of conduct, principles of public life, keeping yourself and others safe, support available, PCC and how decisions are made and the future vision for PCC and Portsmouth. -Specific training for each committee is available on an annual basis. -Staff are required to use a report template for items being progressed to decision meetings. The template provides guidance on content and format. 	
(4.2.2)	Ensure that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making	<ul style="list-style-type: none"> -All reports to decision making meetings clearly set out legal, financial and equalities implications to ensure that decision makers are fully informed about potential issues in approving the recommendations. -All key decisions and actions are minuted. 	
(4.3)	Supporting Principle: Ensuring that an effective risk management system is in place		
(4.3.1)	Ensure that risk management is embedded into the culture of the authority; with members and managers at all levels recognising that risk management is part of their jobs.	<ul style="list-style-type: none"> -In 2013 PCC carried out an appraisal of its risk management arrangements to see if they meet the organisation's needs. On review of the findings, the Strategic Directors Board agreed that rather than determining risks they need assurance on resilience in 9 levels of governance. SDB encourage the development of a risk culture and support the assurance evidence requirements/monitoring arrangements. -Risk is regularly reviewed and tangible mitigation measures are put in place and tested on a regular basis. -All services have business continuity plans that are regularly tested and reviewed. 	<p>Significant risk register to be put in place and new Risk Policy to be put on Policyhub by October 2013</p> <p>100% services complete test robustness of their business continuity plan</p>

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(4.3.2)	Ensure that effective arrangements for whistleblowing are in place to which officers, staff and all those contracting with or appointed by the authority have access.	-The Council operate a Whistleblowing Policy to help individuals raise concerns in the right way without fear. This whistleblowing policy is primarily for a serious concern, which affects the interests of others, such as service users, the public, colleagues or the council itself. -Additionally an Anti-Fraud, Bribery and Corruption Policy sets out the requirements for the Council in relation to combating fraud, bribery, corruption and dishonest dealings within and against the council. -If staff have a grievance about their employment or the way they have been treated, they can follow the Grievance Procedure .	
(4.4)	Supporting Principle: Using their legal powers to the full benefit of the citizens and communities in their area		
(4.4.1)	Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine, but also strive to utilise their powers to the full benefit of their communities.	-The roles and responsibilities of members are set out in the City Constitution .	
(4.4.2)	Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law.	-The Monitoring Officer is a statutory function and ensures that the Council, its Officers, and its Elected Councillors, maintain the highest standards of conduct in all they do. The Monitoring Officer is assisted when required by appointed deputies. The role of the Monitoring Officer is set out in 12.4 of PCC's Constitution. The Monitoring Officer's legal basis is found in Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000.	
(4.4.3)	Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and to integrate the key principles of good administrative law – rationality, legality and natural justice – into their procedures/ decision-making processes.	-All the corporate HR policies can be found in the Managers' HR Handbook, which is divided into six parts. - PolicyHub is a new application that delivers an effective and measurable compliance operation. From updating and managing policies to knowledge assessments and reporting. It ensures the right policies and procedures get to the right people, that they become accountable by signing up to them and that the entire process is recorded and auditable.	
(5)	Core Principle: Developing the capacity and capability of members and officers to be effective		
(5.1)	Supporting Principle: Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles		
(5.1.1)	Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.	-The Council operates an Induction Policy , which applies to all new employees. The induction consists of a personal induction plan (PIP), the completion of an induction checklist, training requirements over and above those identified on the PIP and induction review meetings. -All new members of staff are given an induction programme, which provides information about how the organisation works and its services, the role of Councillors, the history of the Council and vision for the future.	Review member training and political development/ succession planning

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
		<ul style="list-style-type: none"> -All new staff are required to complete mandatory e-learning courses incl health & safety, equalities & diversity, financial rules, and information governance. -All new members attend an induction, which covers the code of conduct, principles of public life, keeping yourself and others safe, support available, PCC and how decisions are made and the future vision. 	
(5.1.2)	<p>Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority.</p>	<ul style="list-style-type: none"> -A robust interview and selection process ensures that statutory officers (Head of Paid Service, Director of Children's Services/Director of Adult Services, Director of Public Health and Monitoring Officer) are only if appointed if they have the right levels of skills and experience to effectively fulfil their role. -Statutory Officers are given the opportunity to build on their skills through mentoring opportunities and executive training. They are also required to complete all mandatory training requirements. -There are a number of IT, technical, soft skills and job specific courses available, with a range of learning styles including, classroom based, offsite and by e-learning -Specific training for each committee is available on an annual basis. -Statutory officers have the option to attend any of the corporate courses. There are also a number of courses run by the Local Government Association. -The ADASS and ADCS provide advice and support to Children's and Adult's Services. 	
(5.2)	Supporting Principle: Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group		
(5.2.1)	<p>Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively.</p>	<ul style="list-style-type: none"> -PCC operates a Performance Development Review (PDR) Policy for all officers. The PDR looks at the employee's achievements and results over the past 12 months, and sets out targets, objectives and expectations for the year ahead. The process allows for an analysis of skills gaps, and sets out a plan for addressing them. Members are responsible for identifying and addressing any skills gaps. -100% of employees are given good quality PDRs, and training needs are identified and sent to HR. 	
(5.2.2)	<p>Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.</p>	<ul style="list-style-type: none"> -PCC operates a Development Policy, which sets out the approach the organisation will take towards developing its employees and achieving the aims of the Council. -The Council provide a Leadership and Management Programme, which aims to create a better performing workforce -Committee members are given specialist (non-political) training to ensure that they are effective in their role. -Whilst the Council aims to address training needs with internal provision, it is, on occasions more appropriate for staff and members to attend external training courses. 	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(5.2.3)	Ensure that arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan, which might for example aim to address any training or development needs.	-The Strategic Directors Board and Senior Management Team are required to complete a Performance Development Review on an annual basis whereby training needs are identified. Strategic Directors and Heads of Service are asked to capture 360 degree feedback from their staff.	
(5.3)	Supporting Principle: Encouraging new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal.		
(5.3.1)	Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority.	- Neighbourhood Forums give Portsmouth residents the opportunity to speak up about what's happening on their doorstep e.g. parking, crime, planning developments, policing and schools. Meetings are advertised locally and anyone welcome to attend and participate in a discussion. -Key plans, strategies and proposed changes to service delivery are put out for consultation and published on the Council's website	
(5.3.2)	Ensure that career structures are in place for members and officers to encourage participation and development.	-All staff will be given a Personal Development Review on an annual basis. -As good practice, services are asked to complete a workforce development plan, which sets out the service demand, capacity, organisational change, recruitment and retention, skills development, talent management, succession planning, and action planning.	Review workforce planning
(6)	Core Principle: Engaging with local people and other stakeholders to ensure robust public accountability.		
(6.1)	Supporting Principle: Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.		
(6.1.1)	Make clear to themselves, all staff and the community to whom they are accountable and for what.	-The Council have a published City Constitution which sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.	
(6.1.2)	Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required.	-The Chief Executive regularly meets with key partners e.g. The Commander of the Naval Base, Chief Fire Officer, Chief Constable, and the Chief Executive of Primary Care Trust. -The Council undertakes annual reviews of key partnerships including the Children's Trust Board and Safer Portsmouth Partnership .	
(6.1.3)	Produce an annual report on the activity of the scrutiny function.	-Scrutiny functions will be documented in Full Council minutes. -Annual reports are progressed to key committee meetings.	
(6.2)	Supporting Principle: Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning		
(6.2.1)	Ensure clear channels of communication are in place with all sections of the community and other stakeholders, including monitoring arrangements, and ensure that they operate effectively.	-Work is on-going to ensure that clear communication channels are established with all local people and stakeholders. -A number of publications are sent to residents to ensure they are kept informed. These include: Flagship Magazine ; House Talk Magazine , Term Times Magazine , and Something for the Weekend Newsletter .	

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Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
		<p>-There are a number of ways people can connect with the council, many of which are listed on the 'Have your say' council webpage.</p> <p>-Local people have the option to engage in a dialogue through: social media sites (including a community engagement blog, facebook and twitter), petition schemes, neighbourhood forums, healthwatch Portsmouth, the rant and rave forum, council meetings (open to the public), their local Councillor and through planned consultations.</p>	
(6.2.2)	<p>Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands.</p>	<p>-Local residents can contact and communicate with the Council in person, by phone, by email, in writing, through social network sites, forums and public meetings. The communication options available are diverse and reflect the need for varied styles in the community.</p> <p>--PCC has set out a Community Engagement Statement which reflects the council's ambition to enable and empower communities to shape the places within which they live and work, influence formal decision making and make informed choices around the services they receive.</p> <p>The Council has also issued Community Engagement Guidance, designed to provide clear guidance to those planning, developing and delivering engagement activities in the city.</p> <p>-The Council has an Equality and Diversity Strategy, which sets out the Council's commitment to ensuring that diverse needs of Portsmouth's residents and visitors are considered and addressed in the day-to-day activities of the council.</p> <p>-Processes for dealing with competing demands are set out in the budget principles.</p>	
(6.2.3)	<p>Establish a clear policy on the types of issue on which they will meaningfully consult on or engage with the public and service users, including a feedback mechanism for those consultees to demonstrate what has changed as a result.</p>	<p>-Key plans, strategies and proposed changes to service delivery are put out for consultation and published on the Council's website - http://www.portsmouth.gov.uk/yourcouncil/24793.html</p> <p>-The Council have a consultation process which provides advice and guidance on consulting with residents and the wider community. The Consultation Process 2013 contains three documents detailing the current process of formal approval for all public consultations: Consultation Diagram which explains the stages of the process simply, Consultation Approval Process which goes into detail and Consultation Approval Form.</p>	
(6.2.4)	<p>Publish an annual performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users.</p>	<p>The Annual Governance Statement is approved by the Governance and Audit and Standards Committee, in September along with the annual statement of accounts. The purpose of the AGS process is to provide a continuous review of the effectiveness of the Council's Governance Framework so as to give assurance on its effectiveness and/or to produce a management action plan to address identified weaknesses in either process. The annual statement of accounts provides clear information about the authority's finances.</p>	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(6.2.5)	Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, incl partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.	<p>-The Freedom of Information Act 2000 (Fol) gives anyone the right to ask for any information held by a public authority, which includes PCC. The information must be in a recorded form, so can include documents, minutes of meetings, e-mails, handwritten notes, videos, letters and audio recordings. PCC is committed to being an open organisation and delivering the best possible public services. This is reflected in the Council's FOI Policy.</p> <p>-Key decision meetings are open to the public (unless confidential).</p>	
(6.3) Supporting Principle: Making best use of human resources by taking an active and planned approach to meet responsibilities to staff			
(6.3.1)	Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making.	<p>-There is a consultation process for staff to make sure their opinions, ideas and suggestions are listened to.</p> <p>-The Council actively consults with trade unions about issues that affect staff.</p>	

APPENDIX C - Annual Governance Statement 2012/13

www.portsmouth.gov.uk

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ANNUAL GOVERNANCE STATEMENT 2012/2013

SCOPE OF RESPONSIBILITY

Portsmouth City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. Portsmouth City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Portsmouth City Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Portsmouth City Council has adopted a Local Code of Conduct which outlines the organisation's governance arrangements for ensuring effectiveness in line with the six core governance principles set out in the Society of Local Authority Chief Executives and Senior Managers (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) 2007 Framework "*Delivering Good Governance in Local Government*"¹. The code demonstrates how the Council achieves good corporate governance and provides hyperlinks to supporting documentation. A copy of local code can be found on the Portsmouth City Council website².

This Annual Governance Statement explains how Portsmouth City Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The Governance Framework urges local authorities to prepare an annual governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement adds value to the effectiveness of the corporate governance and internal control framework.

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

¹ A new addendum to support the annual governance statement for 2012/13 onwards has now been published on the CIPFA website - <http://www.cipfa.org/Services/Networks/Better-Governance-Forum/Corporate-Governance-Documentation/New-addendum-for-Annual-Governance-Statements>

² Need to add link to Local Code once approved and uploaded onto the PCC website.

The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of Portsmouth City Council's policies, aims and objectives; to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Portsmouth City Council for the year ended 31st March 2013 and up to the date of approval of the annual report and statement of accounts.

THE GOVERNANCE FRAMEWORK

Portsmouth City Council's Local Code of Governance reflects the six principles and standards set out in the Delivering Good Governance in Local Government Framework, issued by CIPFA/SOLACE:

1. We focus on the purpose of the Authority and on outcomes for the community and implementing a vision for the local area.
2. Members and officers work together to achieve a common purpose with clearly defined functions and roles.
3. We promote values for the authority and demonstrate the values of good governance through upholding high standards of conducts and behaviour.
4. We take informed and transparent decisions, which are subject to effective scrutiny and managing risk.
5. We develop the capacity and capability of members and officers to be effective.
6. We engage with local people and other stakeholders to ensure robust public accountability.

The following sections look at how the Council is held to account for these six principles.

We focus on the purpose of the authority and on outcomes for the community and implementing a vision for the local area.

Portsmouth City Council has a simple, collective organisational goal that tells employees what they are here to achieve:



**Portsmouth City Council; working together
to shape the great waterfront city**

The goal is based on the premise that everything the council does should improve life for our residents and make the city a better place. Portsmouth City Council's Guiding Principles (see next page) set out how the vision will be achieved.

-  **put customers first**
-  **provide value for money**
-  **be ambitious**
-  **use evidence to shape services**
-  **simplify, strengthen and share processes**
-  **get it right first time**
-  **support councillors as strategic leaders**
-  **value and support staff**
-  **listen and learn**

The council's Transformation Programme operates underneath this goal and is about working better together, as one council. The programme, consisting of 5 workstreams, was initiated in 2011 to deliver efficiencies and new ways of working³ in order to contribute to the ongoing savings targets. Within each workstream there may be a number of areas being progressed at any one time, and this work will typically be managed as a project until acceptance as Business as Usual. The Corporate Transformation Board (which includes Strategic Directors and Heads of Service) takes collective responsibility for the transformation programme and meets regularly to review the programme, discuss any issues and make decisions about how the work moves forwards. Staff are kept informed of key developments in the Transformation Programme through communication briefings.

All services are required to complete business plans that fit with what they are trying to achieve as an organisation. In 2011, Strategic Directors agreed that business plans should be the foundation of corporate planning and the bedrock on which performance management arrangements for the organisation are built. It has been necessary to change performance management arrangements in order to keep pace with national developments but also to reflect the council's changed ways of working and organisational objectives. Portsmouth City Council is now working to arrangements with a stronger focus on accountability at Head of Service level for service performance, and concentration on cross-cutting issues at the level of corporate management.

Specifically, services are asked to outline the way in which they contribute to shaping the great waterfront city; the 5 critical things the service will achieve in the coming year; the desired levels of achievement; and the key measures of success. As part of the business planning process, services are asked to review the relationship between service expenditure and performance and participate in benchmarking exercises to ensure best use of resources and value for money. The plans are designed to be medium term documents which are updated on an annual basis and must be formally agreed by the respective portfolio holders. Business plans are monitored on a quarterly basis by Strategic Directors, with further reports progressed to the Governance and Audit and Standards Committee and Cabinet.

³ Further information about our Ways of Working can be found on Page 6.

Members and officers work together to achieve a common purpose with clearly defined functions and roles

All Portsmouth City Council employees contribute to the achievement of the authority's objectives, whether they are directly involved in service delivery to the customer, or in supporting other services.

The roles and responsibilities of the Executive, non-Executive, Scrutiny and officer functions are defined and documented in the City Constitution⁴, with clear delegations and protocols for effective communication. The Constitution sets out how the council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Although this is no longer a statutory requirement, Portsmouth City Council has taken the decision to continue with this arrangement internally.

Portsmouth City Council has Codes of Conduct for Members and Officers, and Officers are required to declare any interests, gifts and hospitality on a public register. Members are expected to declare any interests at the start of every meeting that they attend in accordance with Standing Orders. The recording of interests are regularly reviewed and there are no current issues with the declaration, or recording of such interests.

It is important that members and officers work with other organisations locally and sub-nationally to achieve a common purpose of improved efficiency and effectiveness. As the Council transforms the way it works and prioritises its use of limited resources, it will remain vital that the Council's budgetary decisions are appropriately linked with the governance frameworks agreed with partners.

The Monitoring Officer is a statutory function and ensures that the Council, its Officers, and its Elected Councillors, maintain the highest standards of conduct in all they do. The Monitoring Officer is assisted when required by appointed deputies. The role of the Monitoring Officer is set out in 12.4 of Portsmouth City Council's Constitution. The Monitoring Officer's legal basis is found in Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000. The Monitoring Officer ensures that the Council is compliant with laws and regulations, as well as internal policies and procedures. He is also responsible for matters relating to the conduct of Councillors and Officers, and for monitoring and reviewing the operation of the Council's Constitution to ensure that its aims and principles are given full effect.

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs. The s151 Officer has a number of statutory duties, including the duty to report any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget. The s151 officer also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit. The s151 Officer together with finance staff ensures that new policies or service proposals are accompanied by a full financial appraisal which is properly costed, fully financed and identifies the key assumptions and financial risks that face the council. The s151 may deputise his duties to another officer, it may not, however, be to the head of paid service or the monitoring officer who are not allowed to hold the s151 officer role.

⁴ A copy of the constitution can be found at: <http://www.portsmouth.gov.uk/yourcouncil/8955.html>

We promote values for the authority and demonstrate the values of good governance through upholding high standards of conducts and behaviour.

Portsmouth City Council has developed “ways of working” as a tool to help staff manage themselves and others, evaluate their performance and recruit new staff. These include:



**We focus on
what's important**



**We take pride
in our work**



**We value
others**



**We make a
positive difference**

Employees and Members will be regularly monitored on their standards of conduct and behaviour. All managers are required to hold annual Personal Development Reviews with their staff and their managers are responsible for ensuring quality and compliance. As part of the PDR process a discussion on ways of working will take place.

The Council's Governance and Audit and Standards Committee undertakes the core functions of an audit committee as identified in CIPFA's "Audit Committees - Practical Guidance for Local Authorities"⁵. The group has an agreed set of terms of reference⁶, which sets out their roles and responsibilities.

The Council has a Whistleblowing policy⁷ and procedures are in place for receiving and investigating internal complaints, as well as investigating complaints from the public. This Policy is kept under review by the Monitoring Officer, and performance reports (which include concerns raised and their outcomes) are submitted to the Governance and Audit and Standards Committee.

The Authority's Anti-Fraud, Bribery and Corruption Policy⁸ conforms to the legislative requirements and is monitored annually. The Policy outlines steps taken to minimise risks of fraud, bribery, corruption and dishonesty and summarises the responsibilities of the S151 officer, City Solicitor, Managers, Audit, Councillors and employees in implementing and maintaining the Policy. All employees are required to complete a code of conduct return which includes a duty to report any suspected cases of fraud or corruption or dishonesty as an essential part of the process of protection the council, its property and reputation.

The Authority's financial management arrangements conform to the legislative and professional requirements of the CIPFA Statement on "The role of the Chief Financial Officer in local government" (2010)⁹. The Chief Finance Officer (who is also the Authorities s151 Officer) is a key member of the Strategic Director's Board, helping to develop and implement strategy and resource and deliver the authority's strategic objectives sustainably and in the public interest. He is actively involved in ensuring all immediate and longer term risks and opportunities are considered and strategic objectives of the authority are aligned to the longer-term financial requirements.

⁵ A copy of the guidance can be found at: <http://www.cipfa.org/Policy-and-Guidance/Publications/A/Audit-Committees--Practical-Guidance-for-Local-Authorities>

⁶ The Governance and Audit and Standards Committee Terms of Reference can be found at: <http://www.portsmouth.gov.uk/media/SC20120716r5app4.pdf>

⁷ The Whistleblowing Policy can found at: <http://www.portsmouth.gov.uk/media/GAS20130314r10.pdf>

⁸ The Policy can be found at: http://intranlink/Media/Whistle_blowing_Policy.pdf

⁹ More information can be found at: <http://www.cipfa.org/Policy-and-Guidance/Reports/The-Role-of-the-Chief-Financial-Officer-in-Local-Government>

The Chief Finance Officer is involved in all major decisions, and advises on financial matters to both the Cabinet and full Council. All reports are considered by appropriately qualified legal and finance staff with expertise in the particular function area before they are progressed to the relevant committee/group. He is responsible for leading the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times, ensuring that budgets are agreed in advance and are robust, that value for money is provided by our services, and that the finance function is fit for purpose. A protocol¹⁰ for the Chief Financial Officer at Portsmouth was approved in November 2011.

We take informed and transparent decisions, which are subject to effective scrutiny and managing risk

Following a formal process, the City Constitution including Standing Orders, Contract Procurement and Financial Rules have been revised and it is an accepted principle of Portsmouth City Council that they are constantly under review to meet the requirements of the organisation. Financial Rules are currently being reviewed in their entirety and are to be rolled out together with staff training in 2013. These rules clearly define how decisions are taken, as well as the processes and controls required to manage risks. Training on Financial Rules is embedded as part of the induction process, and all staff are expected to undertake this training. To this end a reporting mechanism has been developed as part of the review to enable managers to determine the level of training required.

Following a review of the council's approach to managing risks, Portsmouth City Council has agreed a Corporate Risk Management Policy¹¹, which is supported by a set of procedures. The Council is committed to embedding a culture of risk awareness within everyday activities. The new approach minimises formal processes and unnecessary documentation, whilst ensuring that risk management remains an effective part of the governance framework.

We develop the capacity and capability of members and officers to be effective

All new Members receive an induction which includes information on: roles and responsibilities; political management and decision-making (including the constitution); financial management and our processes; health and safety; information governance, and safeguarding. Additionally, compulsory training is provided for those members who sit on the following committees: Governance and Audit and Standards Committee, Licensing Committee, and the Planning Committee. Informal training on scrutiny is provided by members of the Democratic Services team. Management training is also provided on request through the Local Government Leadership academy course.

Although training is Member led, development needs are supported by appropriate training organised and facilitated by the council's learning and development team. Officer support is also available to Members on request. The package of support helps elected Members to effectively carry out their roles and responsibilities to a high standard by building on existing skills, competencies and knowledge.

¹⁰ The Protocol for the Chief Financial Officer can be found here:

<http://www.portsmouth.gov.uk/media/Stan20111031r7appA.pdf>

¹¹ Risk Management Policy: <http://www.portsmouth.gov.uk/media/gas20130627r12.pdf>

All new officers are given an induction programme, which provides information about how the organisation works and its services, the role of Councillors, the history of the Council and vision for the future. All new members of staff are required to complete a number of mandatory e-learning courses including health and safety, equalities and diversity, financial rules, and information governance. Officer training needs are identified through the annual performance development review process. Managers are asked to attend a leadership and management course to ensure a better performing workforce.

We engage with local people and other stakeholders to ensure robust public accountability

The views of customers are at the heart of the council's service delivery arrangements. Portsmouth City Council has developed a Community Engagement Statement¹², which reflects the council's ambition to enable and empower communities to shape the places within which they live and work, influence formal decision making and make informed choices around the services they receive.

It is recognised that people need information about what decisions are being taken locally, and how public money is being spent in order to hold the council to account for the services they provide. To be effective this process aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. The Community Engagement Statement asserts the following objectives for the council's engagement activity: active citizens and strong communities, clearer links between consultation and decision-making, a City that reflects its diversity and improved use of resources. These objectives build upon the council's commitment to finding ways to inform, consult and involve local people in all areas of life.

Portsmouth City Council acknowledges the need for a constantly evolving community engagement process targeted to the needs and aspirations of the audience. Clearly, effective engagement is dependent on clear communication channels with all local people and stakeholders to ensure robust accountability.

There are a number of ways people can connect with the council, many of which are listed on the 'Have your say' council webpage¹³. Local people have the option to engage in a dialogue through: social media sites (including a community engagement blog, facebook and twitter), petition schemes, neighbourhood forums, healthwatch Portsmouth, the rant and rave forum, council meetings (open to the public), their local Councillor¹⁴ and through planned consultations.

The council keeps a forward plan of upcoming consultations. Internally, a consultation toolkit has been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness, consultations are proactively promoted. A list of current consultations, as well as a list of past consultations explaining how the council has used public feedback is available on the council website. The council issues a free copy of their Flagship magazine to all households keeping them up to date about what's going on in the City.

¹² A copy of the Community Engagement Statement can be found at:

http://www.portsmouth.gov.uk/media/Community_engagement_statement.pdf

¹³ Opportunities to have your say can be found at: <http://www.portsmouth.gov.uk/yourcouncil/have-your-say.html>

¹⁴ Who are your Councillors, MPs and MEPs: <http://www.portsmouth.gov.uk/yourcouncil/23350.html>

Portsmouth City Council regularly engages with its employees to ensure they are kept informed about the council and the city. There are communication channels for "off-line" and online employees and a dedicated communications point of contact for staff. Employees are regularly asked to complete opinion surveys so the council can get a better understanding of what's working and what's not. The results are carefully considered and used to address issues.

The governance arrangements in respect of partnerships and other groups working as identified by the Audit Commission's report "Governing Partnerships: Bridging the Accountability Gap" (2005), are defined in the council's financial rules. Portsmouth City Council is involved in many different partnerships at different levels. The council has agreed appropriate partnership agreements and terms of reference with significant partnerships, where they contribute to the council and partners' shared objectives.

It is important that relevant processes are followed including assessing risks before entering into partnership arrangements, and that terms of reference for all significant partnerships are put in place. This will minimise the risk of reputational damage to the council either from the partnership failing to achieve the agreed shared objectives or from financial loss to the council. Officers must ensure there are proper monitoring arrangements in place and appropriate exit strategies where required. For contractual partnerships, the Monitoring Officer and S151 Officer can exercise their powers to rule against a decision if it is deemed as high risk in order to safeguard the Authority.

The Council operates a robust procurement process for managing the commissioning of contracts, which is underpinned by the Contract Procedure Rules. This ensures that best value is achieved from the process of awarding contracts to third parties.

CORPORATE GOVERNANCE CONTROLS

The Strategic Directors Board (SDB) have agreed nine governance controls that services are expected to monitor and comply with through the corporate governance framework. The controls have been selected on the basis that they cover the CIPFA/SOLACE principles and are deemed most critical to meeting the council's business needs. The Council has agreed that:

1. All services have a business plan that reflects the vision of the authority, is actively managed with the Strategic Director quarterly, and published by 31 March annually.
2. All staff (including volunteers/temporary posts) working with children and vulnerable adults require an enhanced criminal records check prior to appointment in line with PCC's disclosure and barring policy.
3. All staff adhere to clear desk and clear screen practices with regards to sensitive/personal information.
4. All services understand our legal equalities duties, and embed them within service projects and plans.
5. Risk is regularly reviewed and tangible mitigation measures are put in place and tested on a regular basis.
6. All services have business continuity plans that are regularly tested and reviewed.
7. Complaints are dealt with in a timely manner, responded to effectively, and outcomes recorded.
8. 100% of employees are given good quality PDRs, and training needs are identified and sent to HR.
9. 100% of employees complete the code of conduct upon joining the organisation.

REVIEW OF EFFECTIVENESS

Portsmouth City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of:

- The Strategic Directors and Heads of Services within the Authority who have responsibility for the development and maintenance of the governance environment.
- The Chief Internal Auditor's annual report and opinion, and also by comments made by the external auditors and other review agencies and inspectorates.
- The Chief Financial Officer whose role is performed by the Head of Finance (and who is also Portsmouth City Council's Section 151 Officer) who has statutory responsibility for ensuring the proper management of all Portsmouth's financial affairs.
- The Corporate Governance Group, made up of the Chief Executive, the Chief Internal Auditor, the Section 151 Officer and Monitoring Officer, and the Head of HR, Legal and Performance with input from others as relevant. This group meets regularly to discuss corporate governance arrangements and issues, and to reflect on recurring themes and spheres of activity relating to council improvement.
- The Governance and Audit and Standards Committee

To support the governance framework, there is an agreed formal process to evaluate the effectiveness of internal control, which requires:

- A review of progress against previously identified governance issues.
- Heads of Service to complete an internal control questionnaire to evidence their compliance with the nine internal controls. Any breaches to policies and procedures are also reported, with remedying actions identified.
- A self-assessment review of the Governance and Audit and Standards Committee, which is completed by the Chair.
- A review of the effectiveness of Internal and External Audit
- A review of the internal and external auditor's annual letters
- A review of business risks identified through the business and planning and performance management process.
- A review of corporate complaints and any complaints regarding Members.
- A review of data protection and information governance issues.
- A review of relevant reports from review agencies and inspectorates.
- A review of Employee Opinion and Pulse Survey results.

The Governance and Audit and Standards Committee have given advice on the results of the governance framework effectiveness review, and a plan to address weaknesses and ensure continuous improvement of the system has been put in place.

SIGNIFICANT GOVERNANCE ISSUES FOR 2012/13

The following table summarises the key governance issues for 2012/13, the source of information by which they have been identified and the actions to address them. Progress will be monitored at least quarterly by the Corporate Governance Group and Governance and Audit and Standards Committee:

Ref	Governance Issue	Source	Actions	Measures of Success	Lead/s	Timescale
1	Possible weaknesses in people management.	Governance issues from 2011/12 and 2012/13 Internal Control Questionnaire results re <i>Control 8 (PDRs)</i>	Commission and promote a new management training programme.	Increased participation	Fiona Morrison	From Oct 2013
			Report to be progressed to Employment Committee following the review of the PDR process.	100% of staff to have a PDR. All services to be using the new template.	Julie Barratt	October 2013
			Continue to monitor staff opinion survey results regarding staff satisfaction with management and leadership.	Increased satisfaction	Tarnia Goodsell	Ongoing
2	Non-completion of financial rules training, resulting in non-compliance with Financial Rules	Governance issues from 2011/12	Parts A-D of Financial Rules to be uploaded onto PolicyHub	100% of relevant staff have read Parts A-D.	Lyn Graham/ Chris Ward	September 2013
			Parts E-G of Financial Rules to be finalised and uploaded onto PolicyHub	100% of relevant have read Parts E-G.		January 2014
			Training programme on new financial rules to be rolled out.	Relevant staff have attended the training		From April 2014
3	All posts that fall within the legislation need to be checked in line with the Disclosure and Barring Service guidelines that came into effect on the 17 June 2013	Governance issues from 2011/12	Recruitment to ensure that relevant guidance and advice is issued to the manager and candidate as required, checks are undertaken for casual employees, and the recruiting manager is aware of the correct process to follow.	All staff have up-to-date CRBs	Julie Barratt	Ongoing
			Disclosure and Barring Service Policy to be updated and uploaded onto Intralink/circulated to key staff through Policyhub.	Current guidance available on Intralink		October 2013
4	Business Continuity Plans could be strengthened	Governance issues from 2011/12	Services to participate in a table-top exercise within a year of producing the service business continuity plan to test the robustness of the plan.	100% services complete a table-top exercise	Kate Scott	August 2014

Ref	Governance Issue	Source	Actions	Measures of Success	Lead/s	Timescale
5	The Council's Equality and Diversity Strategy needs to be refreshed and compliance and monitoring of equalities duties could be improved.	Governance issues from 2011/12 and 2012/13 Internal Control Questionnaire results re <i>Control 4 (equalities)</i>	Managers to ensure that all staff complete the equalities healthcheck (needs to be completed every 3 years).	100% of staff to complete	Fiona Morrison	Ongoing
			Set up an equalities project group with a range of service and member representatives to: -Review our current guidance, the council's duties and the national policy context. -Feedback on the findings and recommendations within the recent LGA Peer Review letter. -Consider lessons from recent consultation activities. -Evaluate the previous approach of the FEG (Fairness and Equalities Group) -Inform the revision of the Council's Equality and Diversity Strategy (2010-13) and Single Equality Scheme (SES) - expires at the end of this year. -Review the current EIA (Equalities Impact Assessment) process and how it is monitored and enforced.	New Equality and Diversity Strategy and Single Equalities Scheme in Place		January 2014
			Improve the quality of workforce data.	Better understanding of the diversity of the workforce	Penny Lane	August 2014
6	Not all services are undertaking comprehensive succession planning	Governance issues from 2011/12	A review of workforce planning has recently been developed which will seek to identify and share areas of good practice and encourage the development of robust succession planning across all services.	Revised workforce planning approach in place.	Penny Lane/ HR Business Partners	August 2014
7	The approach to risk management needs to be fully embedded following the 2013 review.	2012/13 Internal Control Questionnaire results re <i>Control 5 (risk)</i> and Corporate Peer Challenge March 2013	Communicate the outcomes of the review and issue information and guidance to staff on the development of a risk culture and the 9 areas SDB require assurance on.	SDB receive assurances against the 9 specified areas from 100% of Services around risk management.	Lyn Graham	December 2013

Ref	Governance Issue	Source	Actions	Measures of Success	Lead/s	Timescale
8	Performance management arrangements need strengthening	2012/13 Internal Control Questionnaire results re <i>Control 1 (business planning)</i> and Corporate Peer Challenge March 2013	Adopt a corporate approach to the performance management of business plans including regular value for money reviews to use as a can opener for further discussion/action.	Better understanding of performance and expenditure across the Authority.	Kelly Nash/ Meg Southcott	August 2014
9	The Council's approach to project management could be strengthened	Corporate Peer Challenge March 2013	Recommendations to be reviewed and inform work going forward. Strengthening of the role of the Corporate Programmes Board, and Project Directors around assurance and challenge. Assuring that all projects are managed appropriately by skilled, competent and qualified Project Management Professionals.	More robust project governance and assurance frameworks, an appropriately qualified and skilled internal PM resource.	Karen Jones	August 2014
10	Member training and political development is not systematic nor sufficiently championed and would benefit from more robust succession planning	Corporate Peer Challenge March 2013	Review of the effectiveness of the current member support offer, approach to training needs analysis, the development offer (including succession planning arrangements), and information flow to members.	Review complete	Michael Lawther	November 2013
			Consider the introduction of a more systematic and tailored political development and training offer for Councillors including the introduction of tailored Personal Development Plans and member training and development champions.	Increased member participation in non-compulsory training		August 2014
11	There is scope to improve the council's relationship with the Voluntary and Community Sector	Corporate Peer Challenge March 2013	Revisit the compact and use this process to establish rules of engagement both strategically and tactically	New compact in place.	Rob Watt/ Mandy Lindley	August 2014
			Consider a member portfolio for the Voluntary and Community Sector	Considered and implemented if necessary		May 2014

Ref	Governance Issue	Source	Actions	Measures of Success	Lead/s	Timescale
12	There is scope to further develop the Cabinet and Strategic Directors Board as one team, with shared goals and expectations.	Corporate Peer Challenge March 2013	Consider building the capacity of Cabinet and the Strategic Directors Board as a single leadership team.	Considered and implemented if necessary	David Williams/ Cllr Gerald Vernon-Jackson	August 2014
13	There is scope to improve the articulation of the council's corporate vision	Corporate Peer Challenge March 2013	Consider the Peer Challenge recommendations to develop a more compelling narrative for Portsmouth as a place and as a community and to outline financial and other challenges over the short, medium and long term and how the council plans to deal with them.	Improved articulation of the Council's corporate vision.	Strategic Directors Board	August 2014
14	The Shaping the Future Programme would benefit from more robust programme management arrangements	Corporate Peer Challenge March 2013	Develop a high level programme narrative.	More rigorous programme management.	Kathy Wadsworth	April 2014
			Increase the robustness of governance arrangements in relation to economic growth and regeneration by reviewing performance management arrangements for Shaping the Future of Portsmouth to ensure clarity around ownership and delivery of the actions and that actions arising from the Business Growth and Skills Plan are fully integrated.			
			Regular monitoring of performance against the indicators, with progress reports to the Business Leaders Group and Cabinet.			
			Hold an annual Shaping the Future Conference to communicate the development of the programme.			

Ref	Governance Issue	Source	Actions	Measures of Success	Lead/s	Timescale
15	A number of governance issues were raised as a result of the safeguarding peer challenge	Safeguarding Peer Review October 2012	The Portsmouth Safeguarding Children Board (PSCB) has been responsible for the governance for the issues arising from the LGA Safeguarding Children Peer Review. All of the 'areas for consideration' highlighted by the Peer Review feedback letter have been mapped against existing action plans in all partner agencies and the Board was assured that all of them are covered through existing actions. The progress against these actions is monitored through the work of the PSCB's Monitoring Evaluation and Scrutiny Committee which regularly reports to the PSCB.	All immediate actions completed.	David Hogg	Immediate
16	There is scope to strengthen procedures around data protection.	Information Governance Audit/Data Protection Breaches June 2013	All staff to ensure that confidential/personal data is locked away. Spot checks to ensure that this is taking place. Introduction of new Multi-functional devices to ensure locked printing.	Reduction in the number of data breaches	Heads of Service	Immediate and ongoing
			Services to delete or archive confidential/personal data that is no longer required whilst ensuring that data retention requirements are met			
			Relevant staff to undertake information governance training			
17	The December 2012 budget and performance report forecast a significant overspend on the assisted home to school transport budget.	Annual Internal Audit Report for the 2012/13 Financial Year	Michael Lawther and Julian Wooster will liaise with Chris Ward (Head of Finance and S 151 Officer) to discuss the exception raised as a result of this review and to agree a resolution to the forecast overspend for 2013/2014.	Reduced overspend in 2014/15.	Julian Wooster/ Michael Lawther/ Chris Ward	April 2014
			Review of the eligibility criteria for home to school transport, the application and assessment process for determining eligibility and the mode of transport used to meet eligible children and young people.			
18	Work undertaken by the Building Control Surveyor is not checked.	Annual Internal Audit Report for the 2012/13 Financial Year	The department is currently being restructured and at the time of the audit there was no Building Control Manager in position. The building regulation charge calculation sheet will be reviewed to ensure that the base calculation is clearly recorded. In the interim period the calculation sheets will be spot checked by the Head of Planning Services.	Spot checks carried out on a regular basis.	Claire Upton-Brown	Immediate and ongoing

Ref	Governance Issue	Source	Actions	Measures of Success	Lead/s	Timescale
19	The Accounts Receivable Audit revealed errors in the completion of credit note request forms, reducing our control over preventing fraud.	Annual Internal Audit Report for the 2012/13 Financial Year	A new monitoring process is to be implemented to enable potential review of all credit notes raised. Monthly reports are to be produced by the Accounts Receivable team and nominated finance officers will be responsible for monitoring and verifying the validity of the credit notes raised in their area of responsibility. Evidence of the monitoring conducted will be noted on the report generated.	New monitoring process successfully implemented	Chris Ward	Immediate and ongoing
20	There are public buildings that do not come under the auspices of the Council to undertake legionella testing and these include, for example, some schools and the Pyramid Centre	Annual Internal Audit Report for the 2012/13 Financial Year	The Port Senior Building Surveyor has stated that "tanks will be lagged and temperature gauges fitted as well as procedures for flushing before use. This, together with the rigorous testing regime that is employed in the rest of the site, will reduce the likelihood of any problem".	More consistent testing and monitoring	Port Senior Building Surveyor	Immediate and ongoing
			A Corporate Legionella Management Policy will be introduced by the Health and Safety Manager		Frank Regan	Complete
			Letter to go to all schools explaining their responsibilities and for PCC Schools a process to demonstrate compliance.		Mike Stoneham	Complete
			New management of the Pyramids by BH Live will have contacts in place for Legionella testing/monitoring and management. These will be audited annually as part of the annual inspection of all the Pyramids.		John Bean	October 2013
21	The Financial Controller post at the MMD is an authoriser as well as the administrator for Sage and is therefore vulnerable to either be in a position to commit a fraud or at risk of accusations of fraud.	Audit Report for the 2012/13 Financial Year	The Financial Controller to be removed as an administrator of the Sage Payroll system.	Financial Controller removed as an administrator.	MMD (Shipping Services)	01 July 2013

Ref	Governance Issue	Source	Actions	Measures of Success	Lead/s	Timescale
22	MMD cannot evidence which staff access levels to Navision (a finance and distribution system).	Audit Report for the 2012/13 Financial Year	The IT Administrator will analyse the different security groups in Navision and detail the access rights they have. The users in each security group will then be reviewed by the Directors and amendments will be made as necessary.	Clear and appropriate staff access levels		31 July 2013
23	Members of staff at the MMD who have access to Navision have the ability to amend supplier and customer details, including bank details.	Audit Report for the 2012/13 Financial Year	To improve segregation of duties, the setting up / editing of supplier accounts need to be restricted to the Management Accountant and, in their absence, by the Desktop Support Analyst. The Financial Controller will check all payments and will sample check that bank details on the forms are correct. Purchase Ledger BACS payments are created / exported from Navision by the Purchase Ledger Clerk and transactions imported into Lloyds Link are frozen so that amendments cannot be overwritten by any authorised officer without cancelling the initial entry, preventing amendments outside of Navision.	Restricted editing rights.		Complete
24	The Client Affairs Team takes responsibility for the finances of Social Care clients incapable of managing their own affairs, acting as their Deputy through an application to the Court of Protection. It was confirmed that there were no formalised procedures on how to deal with client property searches or records that need to be kept.	Audit Report for the 2011/12 Financial Year	Formalised procedure to be put in place that covers client property searches and also a template for recording items that have been removed from clients homes. A copy of the procedure and template has been provided to Internal Audit and a follow up audit will review its application.	Clear, formalised procedure in place.	Julian Wooster	Immediate

Ref	Governance Issue	Source	Actions	Measures of Success	Lead/s	Timescale
25	There are a high number of critical and high risk exceptions and therefore only limited assurance on the effectiveness of internal control framework can be given.	Annual Audit opinion 2012/13	Internal Audit to work with Heads of Service to improve specific areas of control weaknesses.	Less critical and high risk exceptions identified in the 2013/14 Annual Audit Opinion	Lyn Graham	September 2014
26	Surveillance and product details to be recorded at cancellation of Authorisation.	Office of Surveillance Commissioners RIPA Report	The OSC Inspector has issued their report which found that all previous recommendations had been actioned, that PCC has raised their compliance to a high level and make one recommendation regarding recording of surveillance details and product at the cancellation stage. Policy and application form have been updated has been updated	Policy approved and re-issued	Lyn Graham	June 2013
27	There is scope to strengthen the governance arrangements for the Joint City Deal between Portsmouth and Southampton	Joint City Deal with Southampton City Council 2013	Formation of a City Deal Joint Statutory Committee (JSC) comprising of the two Cities, Solent LEP, and other Solent Local Authorities, together with an invitation to key statutory agencies party to the deal (Highways Agency, DFT, HCA, DEFRA family, DWP and SFA) to work with the JSC.	Unity of policy making for the local area	David Williams/ Robert Parkin	November 2013
28	Operating within the new public health arrangements.	National legislation transferring additional responsibilities to local authorities April 2013	Increase awareness across members and officers of the City Council's public health responsibilities and implications including through the following: Discussion with lead member and other relevant portfolio holders, Briefing notes to all Members CTB presentation, Team Brief information	Budget decisions supporting key public health priorities	Andrew Mortimore	By December 2013
			Embed the Health and Wellbeing Board as a committee of the council and an effective partnership providing strategic direction to the council and CCG's approach to improving the health and wellbeing of local people.	Continued engagement of key partners. Delivery against priorities in agreed Joint Health and Wellbeing Strategy	Andrew Mortimore/ Julian Wooster	Ongoing

Ref	Governance Issue	Source	Actions	Measures of Success	Lead/s	Timescale
			Ensure effective relationships are maintained with institutions including providers and commissioning groups that make up the local health system	tbc	Andrew Mortimore/ Julian Wooster	Ongoing
			Ensure Public Health resource allocation achieves intended maximum health gain and outcomes through appropriately evidenced and evaluated intervention activity.	Difference in life expectancy and healthy life expectancy between communities	Andrew Mortimore	Ongoing Monitored annually
			Resolve outstanding information governance issues with access to NHS data and information in line with national guidance and enabling legislative changes	Relevant NHS data and information is made available and appropriate	David Price	Ongoing
			Embed Public Health objectives into council decision making, for instance, by using Health Impact Assessments to support process.	Health is incorporated into decision making	Matt Smith	Ongoing
29	The Council is letting the Brunel wing of the Civic Offices and as a result will be reconfiguring the Civic Offices. In response to this change and the need to modernise ways of working, the Council will be introducing 'working anywhere' infrastructure to support mobile and flexible working. This new culture will need a different management style.	Transformation Programme - Next Steps	Ensure regular communications about the new culture of mobile and flexible working are cascaded to staff.	Staff are kept informed and comply with the new ways of working.	Tarnia Goodsell	Ongoing
		Develop a culture change package to support 'working anywhere' based on a new management style focused on outcomes.	Kelly Nash		October 2013	

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

As part of the Council’s Internal Audit Protocol, the Head of Service responsible for Internal Audit must continually review the service’s effectiveness. This is done using CIPFA’s “Characteristics of Effectiveness”, which reviews whether or not Internal Audit:

- understands its position in respect of other sources of assurance
- understands the needs and objectives of the organisation and adds value in helping achieve them
- is a catalyst for change, and is involved in improvements and projects as they develop
- is forward looking and proactive
- is innovative and challenging
- has the right resources and skills
- The Head of HR, Legal and Performance has confirmed that he is satisfied that the Internal Audit service does currently fulfil the “Characteristics of Effectiveness”.

INTERNAL AUDIT OPINION AND ISSUES

Due to the number of critical and high risk exceptions the Audit opinion for 2012/13 is that only limited assurance on the effectiveness of the control framework can be given with the areas of most concern.

We propose over the coming years to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Portsmouth City Council

.....
David Williams, Chief Executive

.....
Date

.....
Cllr Gerald Vernon Jackson, Leader of the Council

.....
Date

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Agenda Item 17

Decision Maker:	Governance & Audit and Standards Committee
Subject:	Data Breach reporting
Date of decision:	27 September 2013
Report from:	Michael Lawther City Solicitor and Strategic Director
Report by:	Peter Harding Corporate Information Governance Officer
Wards Affected:	All
Key decision	N/A

1. **Summary**

To advise G&A&S of Data Breaches brought to their attention and where appropriate considered by the Corporate Information Governance Panel during the previous 12 months.

2. **Purpose of report**

To update Members on Data Breaches that have arisen during 2012/13 and the actions taken. The appended report is exempt.

3. **Background**

In 2011 PCC signed an Undertaking following a reportable data breach to the Information Commissioner's Office (ICO). The ICO followed this with an onsite audit of which one recommendation was to establish a central body for Information Governance. The Corporate Information Governance Panel (CIGP) was formed chaired by Michael Lawther in the role of Senior Information Risk Owner (SIRO).

Administration of this panel is by the Corporate Information Governance team (Peter Harding/Helen Magri) and representation from most business areas. The Terms of Reference (briefly):

- To establish policy and procedures for Information Governance;
- To maintain a log of data breaches and determine onward action.

4 **Recommendations**

It is recommended that Members of the Governance & Audit Committee note the breaches that have arisen and the action determined by CIGP.

5. **Data Breaches - Rolling year June 2012 - 2013**

A potential data breach is presented to CIGP by the service in which the breach occurred and CIGP determine the severity, remedial actions and need for onward reporting to the ICO.

8 potential breaches have been reported to CIGP.

6. Equality impact Assessment

"An equality impact assessment is not required as the recommendation does not have a negative impact on any of the protected characteristics as described in the Equality Act 2010."

7. Legal Implications

The Council is required to ensure that it has robust procedures in place to comply with its obligations under the Data Protection Act. Bringing this report to the Committee's attention assists in meeting those requirements.

8. Finance comments

The ICO can issue fines of up to £500,000 for serious breaches of the Data Protection Act and Privacy and Electronic Communications Regulations. The size of any monetary penalty is determined by the Commissioner taking into account the seriousness of the breach and other factors such as the size, financial and other resources of the data controller. Any breaches put the City Council at risk of the unbudgeted cost of a financial penalty which would have to be met from the service responsible for the breach.

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Signed by: Michael Lawther City Solicitor & Strategic Director

Appendices: One exempt Appendix

Background list of documents: Section 100D of the local government Act 1972.

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of Document	Location
Nil	N/A