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# NOTICE OF MEETING

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**GOVERNANCE & AUDIT & STANDARDS COMMITTEE**

**FRIDAY, 26 SEPTEMBER 2014 AT 2.30 PM**

**CONFERENCE ROOM A - CIVIC OFFICES, PORTSMOUTH**

Telephone enquiries to 023 9283 4058

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## **Membership**

Councillor Simon Boshier (Chair)  
Councillor Eleanor Scott (Vice-Chair)  
Councillor John Ferrett  
Councillor Colin Galloway  
Councillor Leo Madden  
Councillor Hugh Mason

## **Standing Deputies**

Councillor David Fuller  
Councillor Phil Smith  
Councillor Rob Wood  
Councillor Steve Hastings  
Councillor Julie Swan  
Councillor Alistair Thompson

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(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](http://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 2014 (Pages 1 - 12)**

To confirm the minutes of the meeting held on 27 June 2014 as a correct record.

**RECOMMENDED that the minutes of the meeting held on 27 June 2014 be confirmed and signed by the Chair as a correct record.**

**4 Updates on actions identified in the minutes**

**5 Annual Governance Statement 2013/14 (Pages 13 - 72)**

The purpose of the report is to seek approval from the Governance & Audit & Standards Committee for the council's finalised Annual Governance Statement (AGS) for 2013/14 and the proposed framework that will be put in place to monitor progress.

**RECOMMENDED that the Governance and Audit and Standards Committee:**

- a) **Note the progress made against 2012/13 annual governance issues as set out in Appendix A**
- b) **Approves the Annual Governance Statement 2013/14 for publication as set out in Appendix B**
- c) **Approves the 2014 Local Code of Governance for publication as set out in Appendix C**
- d) **Approves the monitoring process from the options in paragraph 6.3**

**6 Statement of Accounts 2013/14 (Pages 73 - 188)**

**7 External Audit Annual Results Report 2013/14 - Ernst & Young (Pages 189 - 202)**

Chair to sign the Letter of Representation.

**8 Performance Management Update Q1 2014-15 (Pages 203 - 222)**

The purpose of the report is inform members of performance issues arising in the first quarter of the 2014 -15 reporting period.

**RECOMMENDED that the Committee**

- 1) **Note the report, and**
- 2) **Comment on the performance issues highlighted in section 4, including agreeing if any further action is required.**

**9 Review of Polling Districts and Polling Places (Pages 223 - 244)**

The purpose of the report is to detail the outcomes of the review of polling districts and polling places recently undertaken and to invite members to consider the recommendations made.

**RECOMMENDED that the Committee recommends to Council that the changes recommended in paragraphs 5.2 to 5.11 are approved and implemented on publication of the 2015 Register of Electors.**

**10 Audit Performance Status Report to 26th August 2014 for Audit Plan 2014/15 (Pages 245 - 260)**

The purpose of the report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2014/15 to 26<sup>th</sup> August 2014 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

**RECOMMENDED that Members**

- (1) **Note the Audit Performance for 2014/15 to 26<sup>th</sup> August 2014, and**
- (2) **Note the highlighted areas of control weakness for the 2014/15 Audit Plan.**

**11 Risk Register July 2014 (Pages 261 - 274)**

The purpose of the report is to update Members of the Committee on the current significant risks facing PCC and mitigating actions.

**RECOMMENDED that Members of the Committee note the risks and mitigation.**

**12 Treasury Management Outturn 2013/14 (Pages 275 - 298)**

The purpose of the report is to report on

- The outturn Prudential Indicators for 2013/14
- The Treasury Management decisions taken over the course of 2013/14

**RECOMMENDED that the Governance and Audit and Standards Committee receive the report and note the recommendations relating to**

**Appendices A and B as set out in paragraph 2 of the report.**

- 13 Treasury Management Monitoring Report for the First Quarter of 2014/15**  
(Pages 299 - 316)

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 2014 and of the risks attached to that position.

**RECOMMENDED that the actual treasury management indicators for the first quarter of 2014/15 set out in paragraph 2(a) to ( e) of the report be noted.**

- 14 Action arising from Notice of Motion e) City's Safeguarding Procedure from the Council Meeting held on 15 July 2014 (Resolution attached)**  
(Pages 317 - 318)

The City Solicitor will update the Committee.

- 15 Notice of Motion (f) from the Council Meeting held on 15 July 2014 (Resolution attached)** (Pages 319 - 320)

The Committee is asked to consider the following requests from Council (extracted from the full resolution attached) and decide on how these should be implemented.

- Instruct officers to prepare a detailed breakdown of the full costs of this affair
- To write to all members with this information
- To write to the former member requesting that given this unnecessary burden on the taxpayers of Portsmouth that now he has admitted to these appalling actions he might chose to repay this sum and thus ease the financial burden on residents
- To consider legal action to reclaim these costs if he refuses.

- 16 Date of Next Meeting**

The next meeting is scheduled for 7 November at 2.30 pm in Conference Room A.

Members of the public are now permitted to use both audio visual recording devices and social media during this meeting, on the understanding that it neither disrupts the meeting or records those stating explicitly that they do not wish to be recorded. Guidance on the use of devices at meetings open to the public is available on the Council's website and posters on the wall of the meeting's venue.

# Agenda Item 3

## GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF A MEETING of the Governance & Audit & Standards Committee held on Friday 27 June 2014 at 3.00 pm in Conference Room B, 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](http://www.portsmouth.gov.uk).)

### Present

Councillor Simon Boshier (in the Chair)  
Councillor Eleanor Scott (Vice-Chair)  
Councillor John Ferrett  
Councillor Leo Madden  
Councillor Hugh Mason

### Officers Present

Jon Bell, Head of HR, Legal & Performance  
Chris Ward, Head of Finance and Section 151 Officer  
Michael Lawther, City Solicitor and Monitoring Officer  
James Sandy, Community Engagement Manager  
Lyn Graham, Chief Internal Auditor  
Elizabeth Goodwin, Deputy Chief Internal Auditor  
Megan Barnard, Strategy Adviser  
Stewart Agland, Local Democracy Manager  
Greg Povey,  
NB Councillor Phil Smith as Standing Deputy attended as an observer

### External Auditors

Mark Justesen, External Auditor

#### **30 Apologies for Absence (AI 1)**

Apologies for absence were received from Councillor Colin Galloway.

#### **31 Declarations of Members' Interests (AI 2)**

There were no declarations of members' interests.

#### **32 Minutes of the meeting held on 13 March 2014 (AI 3)**

**RESOLVED** that the minutes of the meeting held on 13 March 2014 be confirmed and signed by the chair as a correct record.

### 33 Updates on Actions identified in the Minutes (AI 4)

Although there were no actions identified in the minutes there was a discussion about ensuring that business going on to Governance and Audit and Standards does not encroach on work that properly belongs to the Employment Committee. The City Solicitor said that he would try to ensure that unnecessary duplication does not occur.

### 34 External Audit (1) Sector Update and (2) Progress Report - Ernst and Young (AI 5)

(TAKE IN REPORT)

(1) **Sector Update** - Mr Mark Justesen introduced the sector update and said that page 11 sets out the key questions for the committee.

During discussion, the following matters were clarified:

- The City Solicitor confirmed that it was not incumbent upon this committee to do anything about the new regulations covering consultation in respect of setting up new Town or Parish Councils as this is not relevant at present.
- With regard to page 12 of the update report and the link on that page to the Single Fraud Investigation Service, it was confirmed that there is a relatively small number of staff who might be affected by this. Mr Bell confirmed that he is doing all he can to retain skilled individuals within the city council. The areas being transferred cover council tax fraud but not housing benefit fraud. The City Solicitor agreed to bring an update report to Governance & Audit & Standards on this issue.

(2) **Audit Progress Reports to June 2014** - Mr Justesen introduced the progress report and confirmed that no serious issues had been identified to report to members. However, it was noted that the move to Oracle EBS R.12 has involved a number of complications that have required system workaround. He advised that a timetable had been drawn up - the Audit Committee Timeline - which is shown at item 2 of the report for information.

The following matters were clarified:

- In relation to the Harbour accounts, Chris Ward said that there is a requirement to prepare accounts but currently there is no deadline for this work to be completed.
- With regard to the proposed transfer of estate into the HRA, a discussion took place concerning how this would be done and whether the sums transferred would be appropriate. Mr Ward said that there was not a threshold - the transfer was either legal ( i.e. it was appropriate) or it was not.

**RESOLVED that**

- (1) the sector update be noted.**
- (2) the audit progress report to June 2014 be noted.**

**35 Update on the Council's Compliance with its Equality Duty and Equality Impact Assessment Process (AI 6)**

(TAKE IN REPORT)

James Sandy, Community Engagement Manager, introduced the update report and said that for the first time all services are now 100% compliant. He said that the council has a well-established Equality Impact Assessment (EIA) process which assists compliance with the Equality Duty. As part of the council's EIA process, council services are required to undertake review EIAs on the major services, policies and functions of the council that have been identified by the management and the Equality and Diversity team as having a potential present or future disproportionately negative impact on people possessing any of the "protected characteristics". The monitoring of this by this committee has proved beneficial in improving the services' compliance with the EIA process.

**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 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.**

**36 Update on the Annual Governance Statement (AI 7)**

(TAKE IN REPORT)

Megan Barnard, Strategy Adviser, introduced the report which provides an update on progress made in addressing the significant governance issues reported in the 2012/13 Annual Governance Statement and to outline steps taken to develop the Annual Governance Statement for 2013/14. She advised that Appendix A showed progress on actions and Appendix B sets out the draft Governance Statement 2013/2014. She said that taking into consideration the findings from the review of effectiveness, the table on pages 12 to 15 of the draft Annual Governance Statement sets out the proposed list of significant governance issues that need to be tackled over the coming year. She advised that the final draft of the 2012/13 Annual Governance Statement and a copy of the updated Local Code of Corporate Governance will be brought to the September Governance & Audit & Standards Committee for approval, alongside the annual accounts. Following approval, they will be published on the council's website.

During discussion the following matters were raised:

- With regard to management training, a discussion took place about whether this should be mandatory. Jon Bell said that there were time constraints in attending training and also some senior managers felt that it was not appropriate for their group of managers. He advised that in some services, training was already being given to managers tailored to their individual needs. He advised that a follow-up to the LAMP programme is being developed. This will be a combination of soft and hard skills.  
Councillor Boshier said that this was an issue for the Employment Committee with regard to training managers but a Governance & Audit & Standards Committee issue in relation to the effectiveness of the training.  
The City Solicitor said that he felt this should be sent back to the Employment Committee for action, particularly in relation to the time that would be needed to complete training.
- With regard to the comment in 4 on page 3 of Appendix A relating to "Business Continuity Plans could be strengthened", the City Solicitor confirmed that all plans are in place but that they need to be tested for robustness. The City Solicitor said that he would be reporting back to Strategic Directors next month and that the plans would be reviewed and retested. He said that key services have carried out exercises but that the situation needed to be kept under review. Councillor Hugh Mason requested that the City Solicitor drives this through the Strategic Directors Board and reports back on progress to this committee specifically.
- With regard to item 5 on page 3, the figures had not been included in the update on progress column. In addition the document refers to "early Spring 2014" so an update on whether this has been concluded is also required. Megan Barnard confirmed that she would advise what these figures should be so that the minutes could reflect the information.

The City Solicitor said that a decision needed to be taken on whether training for Equalities was necessary and also whether it should be mandatory.

It was suggested that the project management issue referred to in number 9 on page 4 should be an Employment Committee issue.

The City Solicitor said that some projects that had been done by the internal team in terms of project management had been very good - for example the Tipner Scheme.



- With regard to reference 11 page 5, a query was raised as to whether the reference to "new compact in place" was the same as "the revised compact will be launched in July and arrangements are in place for the action plan to support its implementation." It was suggested that an email should be sent to Mandy Lindley to gain clarification on this matter. [Following the meeting Mandy Lindley confirmed that the words in inverted commas refer to the same thing]
- With regard to Member training, the City Solicitor said that it was very difficult to get members engaged in training and that this was not just a local issue but was the case also nationally.  
A comment was made that many councillors especially those who are younger or who are in employment do not feel that any of the training is useful to include on their CVs.  
Perhaps training is best attended when, unless it is undertaken, members are not permitted to sit on certain committees, for example Planning or Licensing.

Members asked that the City Solicitor reports back to this committee on the result of his conversations about re-launching member training.

The Chief Internal Auditor said that it was important that this committee has oversight of matters appearing in the annual Governance Statement.

- Councillor Boshier raised concerns about Legionella testing and in particular the comment that there are public buildings that do not come under the auspices of the council to undertake Legionella testing. The Chief Internal Auditor said that extensive audits had been carried out and asked whether this should be fed back to all members. Councillor Boshier said that he wanted confirmation that everything had been tested and Councillor Eleanor Scott said that in relation to schools can we be specific about which schools we are responsible for regarding testing for Legionella.
- A request was made that all jargon and acronyms currently appearing in the Governance Statement should be fully explained.

#### **RESOLVED that the Governance & Audit & Standards Committee**

**(1) note the work that has been undertaken to address the significant Governance issues reported in the 2012/13 Annual Governance Statement and confirm if the committee is satisfied that they have received adequate assurance on mitigating measures taken to resolve the issues identified; and**

**(2) note the progress followed to develop the draft 2013/14 annual Governance Statement and provide feedback on the contents.**

### **37 Performance Management Update - Quarter 4, 2013/14 (AI 8)**

(TAKE IN REPORT)

Jon Bell introduced the report which is for quarter 4 up to the end of March. He explained that the Appendix shows a summary of service performance issues as collected from the Heads of Service. He explained that as a process this is still being evolved. The chair of the panel said that the column headed 'what needs to be improved' is not something that can be actioned by this committee and suggested that an extra column be added headed 'what is the action required'. Councillor Hugh Mason also suggested that it would be useful to know who was responsible for delivering the objectives.

Councillor Boshier commented that the new website mentioned under the heading 'Customer Community and Democratic Services' that it looked like the website had been designed from an experts point of view. He said that he could not easily find Democracy or the part of the web dedicated to meetings. The City Solicitor said that work is still being done on the website and said he would be happy to receive emailed examples of where members felt improvements should be made.

**RESOLVED that the Governance & Audit & Standards Committee:**

- (1) noted the report; and**
- (2) commented on the performance issues highlighted in section 4.**

### **38 Arrangements for Assessment, Investigation and Determination of a complaint that a Member has failed to comply with the Members' Code of Conduct (AI 9)**

(TAKE IN REPORT)

The City Solicitor introduced the report explaining that following Council's consideration of a Notice of Motion on 13 February 2014, council referred the matter set out in 1.1 of the report to the Governance & Audit & Standards Committee. The City Solicitor explained that if the committee is content to make this amendment to the present arrangements, that decision will be required to be approved by council.

Following discussion members felt that the recommendation set out in paragraph 4 of the report was fair.

**RESOLVED that**

**Council is recommended to note that the committee resolved that for the reasons outlined in the report the investigation report is not published in whole, or in part, but that the council's procedure for the assessment investigation and determination of complaints is amended to allow a redacted copy of the investigators report to be provided to the complainant at the same time that it is provided to the councillor who is the subject of the complaint.**

**39 Filming, Photographing and Recording of a Public Meeting of the Council (AI 10)**

(TAKE IN REPORT)

Stewart Agland, Local Democracy Manager, explained that the purpose of the report is to provide information to the council on how best to ensure compliance with the new legislative requirements under the Local Audit and Accountability Act 2014. This requires councils (once the necessary secondary legislation is in place) to allow the filming, photographing, and recording of all meetings of the council to which the public are admitted.

**RESOLVED that Governance & Audit & Standards Committee recommend:**

- (1) that the council agree the proposed rules for governing the filming, photographing and recording of council meetings to which the public are entitled to attend (see Appendix A attached to this report) which will form part of the Constitution, subject to any revisions that may be necessary once the Secondary legislation is published.**
- (2) that Standing Order 36 (c) relating to public conduct be deleted and replaced by the following -**
  - The public and broadcasters are permitted to film or record meetings to which they are allowed access so long as they do so from areas specifically allocated to them and in a manner which does not disrupt the running of the meeting**
  - The use of digital and social media recording and communication tools including Twitter, Blogging or audio recording will be allowed so long as it does not interfere with the running of the meeting.**
  - The filming or recording of members of the public is prohibited in circumstances where they are not making representations to the meeting. Where a member of the public who is addressing the meeting does actively object to being filmed, they should also not be filmed.**
  - The Chair of the meeting or anyone designated by the Chair shall stop the meeting and take appropriate action if anyone breaches the rules governing the filming, photographing and recording of Council meetings (appendix A refers)**
- (3) that Standing order 34 (a) (iii) relating to conduct of Councillors and members of the public in meetings, be deleted**

**(4) it is not considered necessary to make any material changes to the facilities currently afforded to the press and public in the meeting chamber and rooms currently used by the Council, however this may need to be reviewed once the detail of the Secondary legislation is known and if additional facilities are required to be provided; if such a review is required, it be undertaken through a Member/officer working group comprising representatives of all Groups on the Council.**

**40 Composition of Sub-Committees considering complaints against members (AI 11)**

(TAKE IN REPORT)

The City Solicitor introduced the report and said that under Section 17(2) of the Local Government and Housing Act 1989 it was provided that any decision not to apply the political balance rules shall come to an end if there is any change in the make-up of a committee where they have been applied. In January 2013, the committee membership changed and therefore the council was required to once again apply the political balance rules. From that date all sub-committees of this committee were made up of two Liberal Democrat members and one Conservative member in accordance with the political balance rules. The committee further considered the question on 30 January 2014 and decided not to suspend the political balance rules.

The City Solicitor explained that as there has again been a change in the political make-up of the council, members have asked to reconsider the matter. If the decision is made to dis-apply the political balance rules then they shall be applied only until the end of this council year in May 2015 when the matter would again have to be reconsidered. The City Solicitor explained that the decision is one which this committee can make without further reference to council but it must be made without any of the members present voting against. If the political balance rules in respect of the sub-committee which is considering complaints against members are dis-applied, this would mean that the three member panel shall (wherever possible) consist of members not belonging to the same political group as one another.

During discussion members made the following points:

- Members preferred the old system when the Standards Board for England was in place whereby independent members chaired the sub-committees and had voting rights. However, the City Solicitor said this is no longer possible and the new procedure involves independent persons only in an advisory capacity and independent persons are not members of the committee or sub-committee. Members wished to change the procedure to ensure that an independent person was always in attendance at sub-committee meetings. In addition members said that when a decision is taken by a sub-committee to take further action, a new panel should be appointed.
- Members wanted the sub-committee membership to be on a rotation basis as far as possible, subject to availability.

The City Solicitor confirmed that membership of sub-committees of the Governance & Audit & Standards Committee can be drawn from all members of the committee including standing deputies. Following further discussion it was

**RESOLVED that**

- (1) Members agree to dis-apply the political balance rules in respect of its sub-committees when considering complaints against members**
- (2) An independent person be in attendance in an advisory role at all meetings of sub-committees**
- (3) A new sub-committee be appointed in the event that an assessment sub-committee decides that a complaint is taken forward.**

**41 Annual Internal Audit Report for the 2013/14 Financial Year (AI 12)**  
(TAKE IN REPORT)

The Deputy Chief Internal Auditor, Elizabeth Goodwin, introduced the report and said that its purpose was to give the annual audit opinion on the effectiveness of the control framework, based on the internal audit findings for 2013/14 and highlight areas of concern and to advise members of the audit plan for 2014/15. The Deputy Chief Internal Auditor explained that currently there are only three audit opinions to match the exception risk levels and these are no assurance, limited assurance and full assurance.

Due to the number of critical and high risk exceptions, the audit opinion for 2013/14 is that only limited assurance on the effectiveness of the control framework can be given with the areas of most concern highlighted in section 6 and Appendix A and B of the report.

The Deputy Chief Internal Auditor explained internal audit is concerned with the overall effectiveness of the control framework and is working with Heads of Service, Strategic Directors and the Chief Executive to improve on specific areas of control and risk management weaknesses. Any significant corporate weaknesses and agreed actions will be reflected in the annual Governance Statement. Internal Audit has carried out a self-assessment and confirms that they are compliant with the Public Sector Internal Audit Standards (PSIAS).

Ms Goodwin explained that the 2014/15 audit plan is attached as Appendix C to this report. There are currently 137 audits and 45 follow-up audits identified although this will be reviewed quarterly to take account of changing risks and priorities which will be reported to this committee. Ms Goodwin said that the chair of this committee, Councillor Boshier, had met with audit and had agreed the format of the audit reports.

Councillor Boshier had also requested that if internal audit felt it would be useful, Heads of Service could be invited to this committee to explain any delays in improving on specific areas of control and risk management weaknesses.

During discussion the following matters were raised:

- The process for deciding what will or will not be audited was explained by the Deputy Chief Internal Auditor. She said that all departments and all activities were looked at with regard to threats and a risk rating was given. There followed consultation with the Head of Finance and Section 151 Officer and the audit strategy was brought to the Governance & Audit & Standards Committee each year for comment and approval. The Chief Internal Auditor explained that it was not possible to benchmark PCC against other Local Authorities as there are significant variations in how authorities carry out internal audit.
- In response to a query as to why waste collection and waste disposal has been given the same code, Ms Goodwin said that she would email the specific SCOPE to committee members.
- It was confirmed that a significant number (86) of the high risk exceptions relate to schools. One particular school had a high number of critical exceptions and much work has now been done at that school with a view to improving the situation.
- It was confirmed that an update would be brought to the next meeting.

**RESOLVED that,**

- (1) Members note the audit performance for 2013/14;**
- (2) The highlighted areas of control weakness for the 2013/14 audit plan are noted by members and actions being taken to remedy those weaknesses are endorsed;**
- (3) Members note the annual audit opinion on the effectiveness of the system of internal control for 2013/14; and**
- (4) Members endorse the audit plan for 2014/15.**

#### **42 Service Charges Housing (AI 13)**

(TAKE IN REPORT)

The report was introduced by the Chief Internal Auditor who said that the purpose of the report was to advise members of the outcome of an Audit Investigation carried out at the request of the City Solicitor and Monitoring Officer on the complaints made by private owners of ex-Council flats on some of their service charges - the internal audit report on housing service charges is attached as Appendix A to this report. The background to the report also explains that since the enlistment of a project officer in 2011/12 to review the way how leasehold service charges are recorded and recharged, a new system of analysing works and costs data was introduced and charges more accurately accounted for. This has resulted in more costs being recovered from leaseholders. Details of the process are set out in paragraph 3 of the report. The specific objective of the review are set out in 3. 8 of the report.

The Chief Internal Auditor said that there were no really serious issues found as a result of the review but that some areas have been highlighted as perhaps needing review by the service as outlined in 4.4 of the report.

**RESOLVED that, members note the outcome of the investigation namely**

**(1) A service review to be undertaken of changes in mark-up percentages on jobs and of the 12.5% professional fee; and**

**(2) Internal Audit to undertake a review of the benchmarking of repair charges as well as trend analysis and analytical reviews of performance data.**

**43 Procurement Management Information (AI 14)**  
(TAKE IN REPORT)

A query was raised as to why appendices 2 and 3 have been marked exempt and the City Solicitor explained that the market sensitive information that is contained in the exempt appendices may lead to price increases and the information would be meaningless if all the companies involved were made anonymous.

It was proposed by Councillor Simon Boshier and seconded by Councillor Eleanor Scott that in view of the contents of the remaining items on the agenda the committee moved into exempt session. This was carried.

**RESOLVED 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 items on the grounds that the reports contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.**

Mr Greg Povey introduced the report and explained that its purpose is to update members on steps being taken to demonstrate that PCC is achieving value for money from its contracts for goods and services.

A discussion took place in exempt session on the contents of Appendix 3 which for the first time in three years only had one item in it.

Jon Bell said that the target of 95% conformance has been surpassed and 98% conformance has been achieved for March 2014. He said that in the overall context, this was a very good result.

**RESOLVED that, members note we have surpassed the target of 95% conformance and achieved 98% for March 2014 to the performance of our suppliers and contractors and action in progress to address poor performance.**

**44 Data Security Breach Reporting (AI 15)**

(TAKE IN REPORT)

The City Solicitor introduced the report and said that its purpose was to inform the committee of any data security breaches and actions agreed or taken since the last meeting. He said that owing to the seriousness of data breaches, a message has been included in this month's team brief reminding staff that inappropriate access to customer records is a criminal offence.

During discussion, queries were raised about methods of discovering those people who do access data inappropriately and how those incidents are dealt with. The City Solicitor said he would email members the message that goes to staff on this issue.

**RESOLVED that, members of the Governance & Audit & Standards Committee note the breaches (by reference to Exempt Appendix A) that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).**

The meeting concluded at 6.15 pm.

Chair .....



# Agenda Item 5

**Title of meeting:** Governance and Audit and Standards Committee  
**Date of meeting:** Friday 26<sup>th</sup> September 2014  
**Subject:** Annual Governance Statement  
**Report From:** Jessica Birkett, Workforce & Skills Planning Officer, Strategy Unit  
**Wards Affected:** None  
**Key Decision (over £250K)** No

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## 1. Purpose of Report

1.1. The report seeks approval from the Governance & Audit & Standards Committee (G & A & S) for the council's finalised Annual Governance Statement (AGS) for 2013/14 and the proposed framework that will be put in place to monitor progress.

## 2. Recommendations

2.1. It is recommended that the Governance and Audit and Standards Committee:

- a) Note the progress made against 2012/13 annual governance issues as set out in Appendix A
- b) Approves the Annual Governance Statement 2013/14 for publication as set out in Appendix B
- c) Approves the 2014 Local Code of Governance for publication as set out in Appendix C
- d) Select the monitoring process from the options in paragraph 6.3

## 3. Background

3.1. The Authority has a duty to produce and publish an Annual Governance Statement (AGS). This sets out how Portsmouth City Council has complied with the Local Code for Governance, and how the authority meets the requirements of Regulation 4(3) of the Accounts and Audit (England) Regulations 2011.

3.2. It is a key role of the Governance and Audit committee to monitor governance issues across the authority and ensure they are performance managed. The Governance and Audit and Standards Committee receive regular updates on the development of the Annual Governance Statement; the committee last received an update in June 2014. Governance issues are also reviewed regularly by the Corporate Governance Group. The officers in attendance at Corporate Governance Group are David Williams-Chief Executive, Michael Lawther-City Solicitor and Strategic Director, Jon Bell-Head of HR, Legal and Performance, Chris Ward-Head of Finance and Lyn Graham-Chief Internal Auditor.

3.3. The AGS supports the Local Code of Corporate Governance, setting out six core principles of governance, originally adopted by the council in March 2010. Every year, a number of sources are analysed - the Annual Audit letter, reports from Ofsted and the CQC, and collated governance questionnaire returns from Heads of Service. Peer reviews with other local authorities are also being used as a 'critical friend' to

review the council's practices in a challenging but supportive way and highlight further governance issues that the authority is at risk from.

#### **4. Progress Against the 2012/13 Annual Governance Issues**

- 4.1. The purpose of the Annual Governance Statement is to set out the systems and processes in place to ensure that Council business is conducted lawfully and in accordance with proper standards. Compliance helps ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It also acknowledges the Council's responsibility to secure continuous improvement in the way in which its functions are exercised by outlining significant governance issues facing the organisation and steps that will be taken to address them.
- 4.2. On 26<sup>th</sup> September 2013 the Governance and Audit and Standards Committee approved the 2012/13 Annual Governance Statement. This can be found in Appendix A, detailing the progress made on each item and whether it will be carried forward to the 2013/14 Governance Statement.

#### **5. Steps taken to develop the 2013/14 Annual Governance Statement**

- 5.1. The 2013/14 Annual Governance Statement has been prepared in accordance with the proper practice framework–Delivering Good Governance in Local Government issued jointly by SOLACE<sup>1</sup> and CIPFA<sup>2</sup> in 2007 (addendum issued in 2012).
- 5.2. The Council is responsible for conducting a review of the effectiveness of its governance framework in order to identify any weaknesses. To support the review of effectiveness a self-assessment of the Governance and Audit and Standards Committee has been completed by the current Chair of the Governance and Audit and Standards committee (with support from the previous chair).
- 5.3. To support the review of effectiveness, the following sources have been reviewed:
  - a) External Audit's Annual Plan and opinion.
  - b) Issues identified through business planning and performance management.
  - c) Data protection and information governance issues.
  - d) Corporate complaints and freedom of information requests.
  - e) Employee Opinion and Pulse Survey results.
  - f) Annual Internal Audit report and opinion.
  - g) The Corporate Risk Directory
- 5.4. Considerable progress has been made in addressing the significant governance issues identified in the 2012/13 Annual Governance Statement. However, it is proposed that some of the issues roll over into the 2013/14 Annual Governance Statement to allow further work.
- 5.5. Taking into consideration findings from the review of effectiveness, the table on pages 12-16 of the draft Annual Governance Statement 2013/14 sets out the proposed list of significant governance issues that need to be tackled over the coming year this can be found in Appendix B.

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<sup>1</sup> Society of Local Authority Chief Executives and Senior Managers

<sup>2</sup> Chartered Institute of Public Finance and Accountancy

## **6. Review of monitoring process for Governance Issues**

- 6.1 The progress made on governance issues detailed in the Annual Governance Statements are currently all monitored quarterly at each Governance and Audit and Standards Committee and also at regular Governance and Audit Board meetings.
- 6.2 Committee are asked to review the current monitoring method against alternative processes outlined in paragraph 6.3. Alternative means of monitoring have been explored to increase the effectiveness of the Governance and Audit and Standards Committee by enhancing accountability of the lead officer on each item to ensure acceptable progress is made on all governance issues stated in the AGS.
- 6.3 Monitoring Options:
  - (a) Maintain current monitoring process, general review of all items at each committee meeting. This process allows committee to have quarterly updates of each governance item. However, it does not allow for direct contact with the lead(s) of an item, nor does it allow in depth enquiry into the progress of an item.
  - (b) A smaller number of items to be reviewed in detail at quarterly Governance and Audit and Standards Committee meetings. The lead of each selected item will attend Committee to provide an update on progress and answer questions about the item. This process will allow Committee to have a greater influence on the progress of each item and the leads of an item will need to take more accountability to progress their item and report back at committee meetings.
  - (c) General review of all items at each committee meeting, in addition to this select a small number of items for a detailed update on progress from the lead at the following committee meeting. This process allows committee to stay up-to-date on all governance issues, but also allows for early intervention from committee if it is thought that an item is not progressing as planned on the AGS.

## **7. Equality Impact Assessment (EIA)**

- 7.1. An equality impact assessment is not required as the recommendations do not 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:**

<b>Appendix A</b>	Summary of progress on actions to address the 2012/13 annual governance issues
<b>Appendix B</b>	Annual Governance Statement for 2013/14
<b>Appendix C</b>	Local Code of Governance 2014

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:

<b>Title of document</b>	<b>Location</b>
Delivering good governance in Local Government: Framework (addendum 2012)	<a href="http://www.cipfa.org/Services/Networks/Better-Governance-Forum/Corporate-Governance-Documentation/New-addendum-for-Annual-Governance-Statements">http://www.cipfa.org/Services/Networks/Better-Governance-Forum/Corporate-Governance-Documentation/New-addendum-for-Annual-Governance-Statements</a>
Annual Governance Statement 2012/13	<a href="http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=2250&amp;Ver=4">http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=2250&amp;Ver=4</a>
Local code of governance 2014	<a href="#">TBC</a>
Analysis of Internal Control Questionnaires 2014	Strategy Unit
Corporate Peer Challenge feedback presentation	Strategy Unit
OSC RIPA Inspection	Internal Audit
External Audit's Annual Plan	Strategy Unit
14-19 peer challenge feedback presentation	Strategy Unit
HMIP Inspection feedback report	Strategy Unit
Pre-birth to 5 peer challenge feedback presentation	Strategy Unit
Employee opinion and pulse results	Corporate Communications
G&A&S Committee self-assessment checklist	Strategy Unit
Annual Internal Audit report and opinion	Internal Audit

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
1	Possible weaknesses in people management	Commission and promote a new management training programme.	Increased participation Increased satisfaction with 'my manager' as reflected in the pulse / Employee Opinion Survey Qualitative and quantitative data from managers as to impact on their practice	Roland Bryant	The Leadership & Management Programme (LAMP) reached the end of its planned lifespan in 2013 with over half of all managers (across all services) attending at least the Introduction module. It was planned that after LAMP, a review would be undertaken of organisational needs around leadership and management. This piece of work commenced in March 2014 and was on-going until late spring. This work will inform the creation of the new offering for management development but is likely to be around a flexible package of options (e.g. classroom based, peer support, action learning, coaching etc.). A series of courses is about to be launched on MLE that will support managers with day to day management tasks as this has been identified as being a priority by managers. In the longer term we will be developing training to support managers to identify areas for efficiencies, be more entrepreneurial and support the change process. A plan to increase the number of Action Learning Facilitators within L&D to support management development is in place and pilot Action Learning sets are running in order for us to evaluate the benefits of this approach.	No

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
	Possible weaknesses in people management	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. Qualitative and quantitative data from staff members as to the value of the process	Roland Bryant	<p>The council's arrangements for PDRs are still felt to be inadequate, both in terms of the process and implementation. A report will be provided to Employment Committee once the arrangements have been reviewed and a proposal developed.</p> <p>Whilst 100% compliance is the desired outcome, this does not enforce or assess the quality of the interaction nor the value for the manager and staff member. Any new process will need support and communication about making the experience valuable and worthwhile</p>	<b>Yes (Ref 5)</b>
	Possible weaknesses in people management	Continue to monitor staff opinion survey results regarding staff satisfaction with management and leadership.	Increased satisfaction	Rachel Richardson with support from Tarnia Goodsell	<p>The current Pulse and Staff opinion Surveys are being reviewed by the comms team in consultation with HoS and HR in relation to content, timing and purpose. The staff survey is currently run every 6 months. The 'Pulse' survey was held with staff in April 2013 and saw increased satisfaction across all measures (separate breakdown of full results available). It was planned that the outcomes from the survey would inform an action plan with services, but this only happened on a very ad hoc basis. For future surveys to have value, a plan for 'what happens next' will need to be in place from the outset.</p>	<b>No</b>

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
2	Non-completion of financial rules training, resulting in non-compliance with Financial Rules	Parts A-D of Financial Rules to be uploaded onto PolicyHub	100% of relevant staff have read Parts A-D.	Chris Ward	The Financial Rules have been finalised and published on PolicyHub. Training is being updated and will be rolled out by January 2015, this will be co-ordinated by Paul Thomas.	<b>Yes (Ref 3)</b>
		Parts E-G of Financial Rules to be finalised and uploaded onto PolicyHub	100% of relevant have read Parts E-G.			
		Training programme on new financial rules to be rolled out.	Relevant staff have attended the training			
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	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 checks	Julie Barratt	Where applicable rolling checks are in place and all posts are assessed at initial recruitment to assess eligibility for DBS. Sessions have been completed for social care managers, Recruitment Officers ensure new Managers or Managers that have not recruited for a long time are briefed. All questions/queries of compliance are funnelled to the lead counter signatory for investigation / answering. Compliance is high and the regulations are enforced.	<b>No</b>
		Disclosure and Barring Service Policy to be updated	Current guidance available on Intralink		Guidance on Policy Hub is in line with current legislation. New FAQ is under development for publication on new staff intralink.	

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
4	Business Continuity Plans could be strengthened	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	Public Health Business Continuity Plan produced and a table top exercise held on 4 March. Complete review of BC Plans for HR, Legal and Performance and a joint table top exercise held on the 10 March. An internal audit of Business Continuity completed January / February 2014 identified several actions. The Civic Contingencies Unit and IS produced a joint paper considering the actions and summarising recommendations which were delivered to SDB July 2014. Recommendations and a range of options have been produced and these will be delivered to Informal Cabinet for decision in September, at the request of SDB. Services that have not completed a tabletop exercise have again been offered by the BC lead to facilitate an exercise. To date two services have scheduled for October 2014.	<b>Yes (Ref 6)</b>



APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
5	The Council's Equality and Diversity Strategy needs to be refreshed and compliance and monitoring of equalities duties could be improved.	Set up an equalities project group to: review guidance; feedback on the peer challenge findings; consider lessons from recent consultation activities; evaluate the previous approach of the Fairness and Equalities Group; inform the revision of the Council's Equality and Diversity Strategy (2010-13) and Single Equality Scheme (SES); and review the current EIA process.	New Equality and Diversity Strategy and Single Equalities Scheme in place EIA process reviewed and in place	Iwona Defer	A new Equalities strategy has now been approved by Cabinet and Governance, Audit and Standards; the refreshed strategy is a more interactive document which provides opportunities to look at data and information more dynamically. A review of the Equalities is currently underway, and as part of this work, discussions are taking place with neighbouring authorities to see where there is scope to share services.	<b>No</b>
		Managers to ensure that all staff complete the equalities healthcheck (needs to be completed every 3 years).	100% of staff to complete		There are currently discussions taking place with the policy holder for Equalities (Louise Wilders) about the role and purpose of training within meeting our organisational obligations. SDB and CTB are also taking an active role in defining the future of mandatory equalities training as part of a wider review of mandatory training. It is likely that the results of these discussions will be known by early spring 2014.	
		Improve the quality of workforce data	Better understanding of the workforce		The implementation of HR Self-Serve should enable the Council to improve the quality of its workforce data. The pilot is currently underway.	

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
6	Not all services are undertaking comprehensive succession planning	A review of workforce planning to be 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.	HR Business Partners	A report went to SDB on workforce planning progress on the 13th November. The report covered emerging themes and next steps. As one of the steps HR will be developing a Work Force Planning Strategy. A revised approach to workforce planning is now in place and the majority of services have developed plans for their workforce. The suggested format for workforce plans includes seven themes of which succession planning is one. Services have developed workforce plans which are a flexible tool used to highlight key challenges for the services and how these can be managed. Business Partners work closely with services to ensure the themes identified within the plans are integrated into working practices. Examples of this can be found in relation to organisational change, services are planning far more in advance and utilising natural turnover more effectively they are also identifying posts across their businesses which apprentices could fill, the current number across PCC stands at 10 employed in PCC, 15 progressing via recruitment, with the potential of a further 4 more. We are on track to exceed the target of 25.	No
7	The approach to risk management needs to be fully embedded following the 2013 review.	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	A draft risk register has been put together. A Risk Policy has been published on PolicyHub. Training on managing risk, has been piloted by staff in culture during December 2013. The risk software is being re-developed to make it more user-friendly. A report on current risks went to SDB July 2014. Risk software is still being reviewed.	Yes (Ref 7)

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
8	Performance management arrangements need strengthening	Adopt a corporate approach to the performance management of business plans	Better understanding of performance and expenditure across the Authority.	Kelly Nash	Discussions on performance management have concluded that there does need to be more rigour, clarity and consistency, and the quarterly reporting is now done to a common template and more challenge is being offered. The link with risk management is being explicitly explored. For further information, please refer to Kelly Nash's quarter 4 performance monitoring report.	<b>Yes (Ref 8)</b>
9	The Council's approach to project management could be strengthened	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/ Rob Rimmer	More detailed work has commenced on the commissioning and external spend to support major projects. This will link not only to the workforce planning around skills, but also inform the re-commissioning of the professional services framework. The inclusion of more non-capital programmes and projects at CPB has broadened the discussions, and has created a much more rounded discussion on projects. There continues to be a shortfall on project management capacity internally. The recent changes to portfolio underspends has been discussed at CPB in relation to feasibility funding, and this will be communicated out to project managers. There also continues to be a closer link between major corporate risks / chief internal auditor and the major projects forum.	<b>No</b>

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
10	Member training and political development is not systematic nor sufficiently championed and would benefit from more robust succession planning	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	A paper has been drafted that summarises the current training offer and recommendations for a more systematic and tailored political development and training offer. The paper will be progressed to the next group leaders meeting.	<b>YES (Ref 15)</b>
		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			
11	There is scope to improve the council's relationship with the Voluntary and Community Sector	Revisit the compact and use this process to establish rules of engagement both strategically and tactically.	New compact in place.	Rob Watt/ Mandy Lindley	A full review of the Compact has taken place, and has been presented to resources Portfolio during consultation and on its conclusion. Councillor Lee Mason portfolio lead for Resources Portfolio signed the compact agreement on behalf of PCC on 17 <sup>th</sup> July 2014. Other organisations will now be invited to sign up to the agreement and promote partnership working under the compact branding. An implementation plan	<b>No</b>
		Consider a member portfolio for the Voluntary and Community	Considered and implemented if necessary			

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
12	There is scope to further develop the Cabinet and Strategic Directors Board as one team, with shared goals and expectations.	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	Cllr Hugh Mason (Cabinet Member for Resources) has been the lead member for the VCS, and work has been done to make this clearer to officers and the VCS. Cllr Mason chaired a summit as part of the Compact redraft, and has been active throughout the process, which has demonstrated the role clearly. The engagement with the sector is now easier, as an elected representative structure for the VCS is now in place.	No
13	There is scope to improve the articulation of the council's corporate vision	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.	Kelly Nash/Paddy May/Strategic Directors Board	The narrative around the Great Waterfront City and how the city council is working to achieve this has now developed into the SDB plan on a page, and has been cascaded to all staff through team brief. The narrative should form the basis of business planning in 2014/15 and a wider programme of corporate communication. Work is ongoing to align this with performance management.	No

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
14	The Shaping the Future Programme would benefit from more robust programme management arrangements	Develop a high level programme narrative and review 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.	More rigorous programme management.	Bev Lucas/ Nicola Waterman	Working with the Business Leaders Advisory and Workstream Chairs & LEP Groups, individual work plans have been created for each of the eleven workstreams. The work plans include the high level actions (from the regeneration strategy and Business Growth & Skills Plan) that the work stream is contributing to; details of the activities that the work stream will undertake in the year ahead to deliver/contribute to delivering the high level actions (as agreed at a meeting of the workstream chairs on 11 February 2014); and measures of success in relation to these activities. The work plans also identify the KPIs that the work stream is contributing to (directly or indirectly). The individual workstream work plans have been supplemented by a simple, one-page matrix that provides a summary of each workstream's priority actions to facilitate co-ordination of activity and avoid duplication. A suite of KPIs (covering both the regeneration strategy and Business Growth & Skills Plan) has been developed, although this may evolve further over time (reflecting changing priorities as objectives are met and new ones emerge). As agreed at Cabinet in February 2014, progress will now be reported annually, with the next update due early in 2015.	No

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
15	A number of governance issues were raised as a result of the safeguarding peer challenge	Hold an annual Shaping the Future Conference to communicate the development of the programme	Raise awareness	Kathy Wadsworth	A Shaping conference was held on 18 November 2013 and included a mixture of debate, keynote speakers, presentations and information stands. The date and theme of the next Shaping conference has yet to be announced.	No
		The Portsmouth Safeguarding Children Board (PSCB) has been responsible for the governance for the issues arising from the LGA Safeguarding Children Peer Review.	All immediate actions to be completed.	Helen Donelan	The mapping of actions from the Peer Review into existing plans was completed. Action has been taken against all concerns raised where considered appropriate. A number of areas will continue to be a focus for improvement over the next quarter. 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.	
16	There is scope to strengthen procedures around data protection.	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/Lyn Graham	As per the Audit Plan, spot checks continue to be carried out without prior warning. All Heads of Services informed of individual circumstances and actions taken by those Heads of Services with individuals concerned. Roll out of new MFD's now means employees have to log in to print, reducing the risk of picking up/sighting data in error.	Yes (Ref 7)
		Services to delete or archive confidential/personal data that is no longer required whilst ensuring that data retention requirements are met.			Corporate Information Governance Panel to consider how regular programme of destruction can be implemented authority-wide	
		Relevant staff to undertake information governance training			To be identified through PDRs	

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
17	The December 2012 budget and performance report forecast a significant overspend on the assisted home to school transport budget	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.	Julia Katherine/ Meg Southcott	On 3rd March 2014 Cabinet approved a number of changes to the allocation and provision of home-to-school and home-to-college transport assistance, which aim to create a fairer and more consistent system; protect and support vulnerable families in the City and bring about reductions in expenditure. The full recommendations and minuted decisions can be found on the PCC website under Cabinet papers.	No
		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.			Cabinet agreed to remove the current discretionary eligibility criteria for home-to-school/college transport assistance. Transport assistance will only be provided if the child/young person has a statutory entitlement or if the child and/or their family have been assessed as having exceptional needs.	
18	The Accounts Receivable Audit revealed errors in the completion of credit note request forms, reducing our control over preventing fraud.	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	This action has been completed. A more detailed update can be found in Appendix B, Update on previously raised critical exceptions of Lyn Graham's Audit Performance Annual Report.	No



APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
		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	Jon Crawford	Action complete - Portsmouth International Port management team have adopted the Councils' new corporate legionella management policy and now pro-actively work with the Corporate Legionella Advisor to ensure compliance with corporate policy and UK legislative requirements	

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
19	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	A Corporate Legionella Management Policy will be introduced by the Health and Safety Manager		Frank Regan	Action complete - Corporate Legionella Management Policy agreed at SDB level and published on 1st July 2013.	Yes (Ref 9)
		Letter to go to all schools explaining their responsibilities and for PCC Schools a process to demonstrate compliance.		Jon Crawford	Action complete - Mike Stoneman (Strategic Commissioning Manager, CFL SSE) completed this action on 21st October 2013.	
		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	Action complete - Pyramids (as with other properties of this nature) are subject to audit in accordance with corporate policies and service-specific policies (Housing and Property Services) and any non-conformances identified will be addressed in accordance with contractual agreements and UK legislation. A more detailed update can be found in Appendix B, Update on previously raised critical exceptions of Lyn Graham's Audit Performance Annual Report.	

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
20	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.	The Financial Controller to be removed as an administrator of the Sage Payroll system.	Financial Controller removed as an administrator.	MMD (Shipping Services)	A more detailed update can be found in Appendix B, Update on previously raised critical exceptions of Lyn Graham's Audit Performance Annual Report.	<b>No</b>
21	MMD cannot evidence which staff access levels to Navision (a finance and distribution system).	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		Please see update provided by internal audit on critical exceptions identified during the annual internal audit report.	<b>No</b>

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
22	Members of staff at the MMD who have access to Navision have the ability to amend supplier and customer details, including bank details.	To improve segregation of duties, the setting up / editing of supplier accounts needs to be restricted to the Management Accountant and, in their absence, by the Desktop Support Analyst.	Restricted editing rights.		A more detailed update can be found in Appendix B, Update on previously raised critical exceptions of Lyn Graham's Audit Performance Annual Report.	<b>No</b>

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
23	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.	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/ Rob Watt	There is a formalised process in place regarding property searches and the removal of goods. Both the procedure notes and the log sheets have been communicated to staff and documents stored on the shared drive. Internal Audit have received a copy of the processes and are happy with the safeguards in place.	No

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
24	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.	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	The high risk areas are largely contained within 2 areas of focus. Effort has been concentrated in these areas and the issues are being addressed.	<b>No</b>

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
25	Surveillance and product details need to be recorded at cancellation of Authorisation.	Update policy and application forms.	Policy to be revised.	Lyn Graham	Policy and application forms have been updated and re-issued. PCC has raised their compliance to a high level and make one recommendation regarding recording of surveillance details and product at the cancellation stage.	No
26	There is scope to strengthen the governance arrangements for the Joint City Deal between Portsmouth and Southampton	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/ Mark Heath (SCC)	Because of the final nature of the City Deal there was no need for any joint committee and the existing governance arrangements of the Councils is being used to oversee delivery of the City Deal with no need for joint accountability.	No
	Operating within	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	Janet Maxwell	Understanding the prevention agenda and prioritisation of public health priorities is still embryonic. Progress is being made through the H&WB and with political groups however there is still significant work to be done to achieve the balance of priorities setting to gain the best health outcomes for the city.	

APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
27	Operating within the new public health arrangements.	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	Janet Maxwell	As previously reported system leadership and co-ordination is very much an ongoing development area. The refresh and implementation of the Joint Health & Wellbeing Strategy will play an important role in helping to improve city-wide health issues. The strategy now features key public health messages and priorities.	Yes (Ref 10)
		Ensure effective relationships are maintained with institutions including providers and commissioning groups that make up the local health system.	Effective inter-agency working.	Janet Maxwell	This is an ongoing area of development.	
	Operating within the new public	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 is reduced. Outcome indicators demonstrate improvement	Janet Maxwell	Work is progressing on a city-wide public health strategy and health outcomes plan to focus on key areas of the council where the greatest health gain can be achieved. Coupled with this is a complete review of public health services to implement an integrated healthy lifestyles service which is aimed at broader population behaviour change and health improvement	



APPENDIX A - Progress Update on 2012/13 Annual Governance Issues

Ref	Governance issue	Actions	Measures of Success	Lead/s	Update on Progress	Roll over to 2013/14 AGS?
	health arrangements.	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 governance arrangements in place	David Price	Access to NHS data is an ongoing national issue however, provision is being made to get access to hospital data. Locally an Information Governance Improvement Plan is underway. A major strand of this plan is the completion of the Health & Social Care Information Centre IG toolkit which has recently been submitted for approval.	
		Embed Public Health objectives into council decision making, for instance, by using Health Impact	Health is incorporated into decision making	Matt Smith	This remains an ongoing area of work which links with the implementation of the city-wide public health strategy and health outcomes plan.	
28	The Council is letting the Brunel wing of the Civic Offices and as a result will be reconfiguring the Civic Offices	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	The conclusion of the Expression of Interest process for Brunel Wing in early July 2013 allowed a serious possibility to emerge, but also for thinking to develop further about the use of the wing. It is now agreed that a mixed economy of occupancy is the ideal scenario, and a procurement exercise has started for an innovation centre operator to take some of the space. In the meantime, the first commercial tenant has moved in, and the programme of decanting council staff continues.	<b>No</b>
		Develop a culture change package to support 'working anywhere' based on a new management style.		Kelly Nash	Programmes of communication material and staff workshops continue to run alongside office moves to provide staff with an opportunity to share their thoughts and address concerns in a supportive environment.	

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# Annual Governance Statement 2013-2014

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[www.portsmouth.gov.uk](http://www.portsmouth.gov.uk)

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## What is the annual governance statement?

Legislation<sup>1</sup> requires local authorities to prepare and publish an Annual Governance Statement, in order to report publically on the effectiveness of the Council's governance arrangements. The statement provides an overview of the current governance framework and a summary of the review on the effectiveness of Portsmouth City Council's governance framework for 2013/2014 (which coincides with the approval of the annual statement of accounts). The statement openly communicates significant governance issues that have been identified during the review and sets out how the authority will secure continuous improvement in these areas during over the coming year.

## What do we mean by governance?

By governance, we mean the arrangements that are put in place to ensure the intended outcomes for local people are defined and achieved. It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled. Good governance is about making sure the Council does the right things, in the right way for the right people, in a timely inclusive, open, honest and accountable manner.

## 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, properly accounted for and used economically, efficiently and effectively. It 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.

<sup>1</sup> Accounts and Audit (England) Regulations 2011, regulation 4(3)

## About Portsmouth and the Council

Home to the Royal Navy, Portsmouth is a bustling island city on the south coast of England, with an estimated population of 207,000 people residing within 15.5 square miles. This makes Portsmouth the most densely populated City in the UK outside of London. There are over 85,500 households and 5,500 businesses in Portsmouth.

Portsmouth's Council comprises of 42 Councillors (19 Lib Dem Councillors and 1 unaligned Lib Dem Councillor, 12 Conservative Councillors, 6 UKIP Councillors and 4 Labour Councillors) who represent 14 wards across the City. It operates a minority administration under a Leader (Cllr Donna Jones, Conservative<sup>2</sup>) and Cabinet structure with Cabinet Members responsible for individual portfolios.

The Council employs around 4,000<sup>3</sup> members of staff and provides an extensive range of services to residents, businesses and visitors in the City, including: city development and cultural services, regulatory business and standards services, transport and environmental services, housing and property services, children's and adult's social care and safeguarding, education services, revenues and benefits and health and welfare services.



<sup>2</sup> From 3 June 2014

<sup>3</sup> Excluding school staff

**GUIDING PRINCIPLES**

- Focus on the purpose of the Authority, deliver outcomes for the Community whilst providing value for money
- Demonstrate the values of good governance and uphold high standards of conduct and behaviour
- Make informed decisions through efficient, transparent processes. Minimise risk through effective scrutiny
- Listen, and engage with local people and other stakeholders to ensure robust public accountability
- Value and support officers and enable Councillors to be effective strategic leaders
- Simplify, strengthen and share processes to continually learn and improve

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**INTERNAL CONTROLS**

- Leadership, Culture and Planning**  
Organisational goals, values and vision  
Business planning and strategies  
Performance management
- Statutory Officers & Decision Making**  
The Constitution  
The Monitoring Officer  
Section 151 Officer
- Policies & Procedures**  
Codes of conduct  
Ways of working  
Anti-fraud, Bribery and Corruption Policy  
Whistleblowing Policy  
HR Policies and procedures
- People, Knowledge, Finance, Assets**  
Robust HR practices  
Information governance  
Performance monitoring and improvement  
Financial management and reporting  
Ethical & legal practices
- Scrutiny and Transparency**  
Freedom of Information requests  
Complaints procedure  
Reports considered by legal and finance experts  
Equality impact assessments  
Corporate risk directory
- Partnership Working**  
Community engagement statement  
'Have your say'  
Consultations  
Terms of reference for partnerships



## CIPFA/SOLACE Good governance principles and the local code of governance

In 2007 CIPFA/SOLACE issued best practice guidance for 'Delivering Good Governance in Local Government'<sup>4</sup>. The framework sets out six principles that should underpin the governance of each Local Authority. Portsmouth City Council has approved and adopted a local code of governance, which is consistent with the CIPFA/SOLACE good governance principles. The code summarises the Council's internal arrangements that have been put in place to ensure effective governance and includes hyperlinks to supporting documentation. A copy of the authority's code can be obtained from the Council. The following sections look at how the Council is held to account for these six principles.

### 1-Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

*Organisational goal and aspirations for the City*



**Portsmouth City Council; working together to shape the great waterfront city**

Portsmouth City Council has a shared organisational goal (above), which is designed to be simple, reflecting the fact that although we are a diverse organisation, everything the council does is designed to make the city a better place and improve life for our residents. Over the last year, the Council has developed a new corporate plan on a page, which sets out the aspirations for a City that:

- has a sustainable economy that delivers regeneration and inward investment, creates opportunities and drives prosperity for all residents;
- has high quality homes;
- is great place to live that makes best use of our natural assets and supports a vibrant and diverse culture;
- offers excellent education and training so all residents can achieve their full potential;
- protects and supports vulnerable residents, encourages independence and enables them to achieve their full potential; and
- keeps residents healthy and the city safe.

*Guiding principles*

The organisational goal is supported by the following nine corporate principles:



<sup>4</sup> <http://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework>

## *Business planning and performance management*

In order to secure these outcomes for residents and service users, the Council needs to respond to some tough challenges. In the last five years Portsmouth City Council has made £60m of efficiencies and savings but has another £30m more to find by 2016/17 in a climate of rising demand for many of the Council's services. This means that it is important that, whilst we focus on achieving the organisational goal and aspirations, we plan services in detail on an annual basis, focusing on challenges over the coming year but also considering the medium term horizon.

Heads of Service are responsible for preparing business plans that include detail on: core business that must be delivered; plans for improvement, development and disinvestment; financial planning; arrangements for addressing key governance issues; key service risks and management/mitigation activity and arrangements for robust performance management within the service. As part of the business planning process, services have been 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. All Business Plans for 2014/15 will be formally agreed by the Portfolio Holder and are being monitored on a quarterly basis by the respective Strategic Director, 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.

### **2-Members and officers working together to achieve a common purpose with clearly defined functions and roles.**

#### *The Constitution*

The constitution<sup>5</sup> sets out the how the Council operates; the roles and responsibilities of members, officers and the scrutiny and review functions; how decisions are made; and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Although there is no longer a statutory requirement, Portsmouth City Council has taken the decision to continue with this arrangement internally and is in the process of updating the constitution to ensure it reflects current practice. As well as working together as a single organisation, It is important that members and officers continue improve their working relations with other organisations too, both locally and sub-nationally, to achieve a common purpose of improved efficiency and effectiveness.

#### *The Monitoring Officer*

The Monitoring Officer (Michael Lawther) is a statutory function and ensures that the Council, its officers, and its elected members, maintain the highest standards of conduct in all they do. The Monitoring Officer is assisted when required by appointed deputies. 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.

#### *Section 151 Officer*

Whilst all Council Members and Officers have a general financial responsibility, the s151 of the Local Government Act 1972 specifies that one Officer in particular must be responsible for the financial administration of the organisation and that this Officer must be CCAB qualified. This is typically the highest ranking qualified finance officer and in Portsmouth City Council this is Chris Ward, who is also the Head of Finance.

<sup>5</sup> A copy of the constitution can be found at <https://www.portsmouth.gov.uk/ext/the-council/policies-and-strategies/constitution.aspx>



### 3-Promoting the values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behavior.

#### *Codes of conduct*

On joining the Council, members and officers are provided with a contract outlining the terms and conditions of their appointment. All staff must sign a code of conduct and declare any financial interests, gifts or hospitality on a public register. Additionally, members are expected to declare any interests at the start of every meeting that they attend in accordance with Standing Orders. Members and officers are required to comply with approved policies. In the last 2 years, the Council has introduced a system called Policyhub that enables effective dissemination of general and job-specific policies, and has the built in functionality to measure compliance i.e. that a member of staff has read and agreed to the policy.

#### *Ways of working*



Portsmouth City Council has developed 'ways of working' as a tool to help staff manage themselves and others, evaluate performance and recruit new staff. Whilst members and officers are monitored on their standards of conduct and behaviour throughout the year, managers are required to hold good quality Personal Development Reviews with all of their staff on an annual basis, including a discussion on the ways of working.

#### *Financial management*

The Head of Finance and s151 Officer is responsible for leading the promotion and delivery 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. He advises on financial matters to both the Cabinet and full Council and is actively involved in ensuring that the authority's strategic objectives are delivered sustainably in line with long term financial goals. The s151 Officer together with finance staff ensure 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.

Financial Rules were revised in 2013/14 by the s151 Officer so that Portsmouth City Council can meet all of its responsibilities under various laws. They set the framework on how we manage our financial dealings and are part of our City Constitution. They also set the financial standards that will ensure consistency of approach and the controls needed to minimise risks. The s151 Officer has a statutory duty to report any unlawful financial activity or failure to set or keep to a balanced budget. He 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 authority's financial management arrangements conform to the government requirements of the CIPFA Statement on "The role of the chief financial officer in local government" (2010). The Chief Finance Officer attends the Strategic Director's Board, helping to develop and implement strategy and resource and deliver the strategic objectives. The Chief Finance Officer is actively involved in ensuring all immediate and longer term risks and opportunities are considered, and ensure the strategic objectives are aligned to the longer-term finance strategy. The Chief Finance Officer has an input into all major decisions, and advises on financial matters to the Cabinet. He is responsible for ensuring that budgets are agreed in advance and that the agreed budget is robust, to ensure value for money is provided by our services, and is responsible for

ensuring the finance function is fit for purpose. A protocol for the Chief Financial Officer at Portsmouth was approved in November 2011.

### *Anti-fraud, bribery and corruption*

The Council is committed to protecting any funds and property to which it has been entrusted and expects the highest standards of conduct from Members and Officers regarding the administration of financial affairs. The Council's **Anti-Fraud, Bribery and Corruption Policy**<sup>6</sup> (revised in 2014) conforms to legislative requirements and sets out steps to minimise the risk of fraud, bribery, corruption and dishonesty and procedures for dealing with actual or expected fraud.

### *Whistleblowing*

The Council is committed to achieving the highest possible standards of openness and accountability in all of its practices. The Council's Whistleblowing policy<sup>7</sup> (revised in 2013) sets out the options and associated procedures for Council staff to raise concerns about potentially illegal, unethical or immoral practice and summarises expectations around handling the matter. The 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 quarterly.

### *Governance and Audit and Standards Committee*

As its name suggests, the Governance, and Audit and Standards Committee has the responsibility for receiving many reports that deal with issues that are key to good governance. The Committee undertakes the core functions of an Audit Committee identified in CIPFA's practical guidance<sup>8</sup>. The group has an agreed set of terms of reference<sup>9</sup>, which sets out their roles and responsibilities of its members<sup>10</sup>. On an annual basis the Chair of the Committee undertakes a self-assessment, which informs the overall review of effectiveness of the Council's governance arrangements.

## **4-Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.**

### *Transparency*

The Council and its decisions are open and accessible to the community<sup>11</sup>, service users, partners and its staff. The Freedom of Information Act 2000 (FoI) gives anyone the right to ask for any information held by a public authority, which includes Portsmouth City Council, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

All reports requiring a decision 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. Portsmouth City Council wants to ensure that equality considerations are embedded in the decision-making and applied to everything the Council does. To meet this responsibility, equality impact assessments are carried out on all major council services, functions, projects and policies in order to better understand whether they impact on people who are protected under the Equality Act 2010 in order to genuinely influence decision making.

<sup>7</sup> A copy of the whistleblowing policy can be located at :

<http://democracy.portsmouth.gov.uk/Data/Governance%20&%20Audit%20&%20Standards%20Committee/20130314/Agenda/GAS20130314r10.pdf>

<sup>8</sup> 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>

<sup>9</sup> The Governance and Audit and Standards Committee Terms of Reference can be found at:

<http://www.portsmouth.gov.uk/media/SC20120716r5app4.pdf>

<sup>10</sup> Membership can be found at: <http://democracy.portsmouth.gov.uk/mgCommitteeDetails.aspx?ID=148>

<sup>11</sup> Meetings, agendas and minutes: <http://democracy.portsmouth.gov.uk/uucoverpage.aspx?bcr=1>

## *Risk management*

The Council has reviewed its approach to managing risks over the last year and approved a revised Risk Management Policy, which seeks to embed a culture of risk awareness within everyday activities. All significant risks (defined as something that may result in failure in service delivery, significant financial loss, non-achievement of key objectives, damage to health, legal action or reputational damage) must be logged on a Corporate Risk Directory, profiled (as high/medium/low), and mitigating measures/assurances must be put in place. The new approach minimises formal processes and unnecessary documentation, whilst ensuring that risk management remains an effective part of the governance framework.

## *Effective scrutiny*

The Council operates six Scrutiny Panels<sup>12</sup>, governed by their own terms of reference. It is important that Scrutiny Panels act effectively as one of their key tasks is to review and challenge the policy decisions that are taken by Cabinet. Topics that are chosen to be 'scrutinised' are looked at in depth by a cross party panel of Councillors. They 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 are reported to the Cabinet and may result in changes to the way in which services are delivered.

## *Complaints*

There is a clear and transparent complaints procedure<sup>13</sup> for dealing with complaints. The Council operates a three-stage complaints procedure and promises to acknowledge complaints within 5 working days and respond fully within 10 working days for first-stage complaints, 15 working days for second-stage complaints and 20 working days for third-stage complaints. If complainants remain dissatisfied they have the right to refer the matter to the Local Government Ombudsman.

## **5-Developing the capacity and capability of Members and Officers to be effective.**

### *Recruitment and induction*

The Council operates a robust interview and selection process to ensure that Officers are only appointed if they have the right levels of skills and experience to effectively fulfil their role. If working with children and/or vulnerable adults they will be subject to an enhanced criminal records check prior to appointment. New Officers must attend an induction day, which provides information about how the organisation works. Newly elected Councillors are required to attend an induction which includes information on: roles and responsibilities; political management and decision-making; financial management and processes; health and safety; information governance; and safeguarding.

### *Training and development*

All Officers are required to complete a number of mandatory e-learning courses including health and safety, equalities and diversity, financial rules, and information governance. Officers and Members have access to a range of IS, technical, soft skills and job specific training courses. Compulsory training is provided for Members who sit on the following committees: Governance and Audit and Standards Committee, Licensing Committee, and the Planning Committee. Other member-led training is available to Councillors through Democratic Services and Learning and Development. The package of support available gives Members the opportunity to build on existing skills and knowledge in order to carry out their roles effectively.

<sup>12</sup> Further information on our Scrutiny Panels can be found at: <http://democracy.portsmouth.gov.uk/mgListCommittees.aspx?bcr=1>

<sup>13</sup> Complaints procedure: <https://www.portsmouth.gov.uk/ext/the-council/transparency/comment,-compliment-or-complaint.aspx>

## *Performance monitoring*

All Officers receive regular one to ones with their Manager in order to monitor workload and performance and Managers are required to carry out a performance development review on an annual basis, which seeks to identify future training and development needs. Services consider workforce plans as part of the annual business planning process. Our business plans paint a picture of what we want to achieve; workforce planning helps to establish the nature of the workforce needed to deliver that vision, and produce a plan to fill the gaps. This helps to ensure we have the right people, with the right skills, in the right jobs, at the right time.

## **6-Engaging with local people and other stakeholders to ensure robust public accountability.**

### *Engagement and communication*

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. The views of customers are at the heart of the council's service delivery arrangements. Portsmouth City Council has developed a Community Engagement Statement<sup>14</sup>, 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. 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 and aims to build upon the council's commitment to finding ways to inform,
- Consult and involve local people in all areas of life.

To be effective this process aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. There are a number of ways people can get involved and connect with the council, many of which are listed on the 'Have your say' council webpage<sup>15</sup>. 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<sup>16</sup> and through a new citizens panel that launched in 2014.

### *Consultations*

The council keeps a forward plan of planned 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<sup>17</sup>.

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. Portsmouth City Council regularly engages with its employees to

<sup>14</sup> Community Engagement Statement: <https://www.portsmouth.gov.uk/ext/documents-external/cou-community-engagement-statement.pdf>

<sup>15</sup> Opportunities to have your say can be found at: <https://www.portsmouth.gov.uk/ext/community-and-environment/community/have-your-say.aspx>

<sup>16</sup> Who are your Councillors, MPs and MEPs: <http://democracy.portsmouth.gov.uk/mqMemberIndex.aspx?bcr=1>

<sup>17</sup> Consultations: <https://www.portsmouth.gov.uk/ext/the-council/transparency/consultations.aspx>

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.

## Partnership working

Partnerships are about the council coming together with right organisations to deliver improved outcomes for local people. Portsmouth City Council is involved in many different partnerships at different levels, each with their own set of terms of reference for effective joint working. There are 4 strategic partnerships in Portsmouth - The Children's Trust Board, The Health and Wellbeing Board, Safer Portsmouth Partnership and Shaping Portsmouth, which are involved in delivering the city's desired outcomes. Reviews of strategic priorities for each of the partnerships have been aligned in order to better understand shared priorities, reduce duplication and improve commissioning and delivery activity.

## Corporate governance controls

On an annual basis Portsmouth City Council agrees a set of corporate governance controls with the aim of strengthening governance arrangements in key areas. In 2014 the Council agreed the following nine corporate governance controls that all Services are required to comply with:

1	All services have a business plan that reflects the vision of the authority; meets a minimum set of standards; is actively managed; and is refreshed and published annually
2	Risk is regularly reviewed and tangible mitigation measures are in place and regularly tested.
3	All posts that fall within the legislation must be checked in line with DBS <sup>18</sup> guidelines.
4	All staff must adhere to the clear desk and clear screen policy wherever they are working and ensure that sensitive/personal information is appropriately secured when travelling to/from work.
5	The Council understands its legal equalities duties, and embed them as part of service projects/plans.
6	All services have business continuity plans in place that are regularly tested and reviewed.
7	Complaints are responded to within a timely manner, causes addressed, and outcomes recorded
8	100% of staff are given good quality PDRs and any actions resulting from the PDR must be completed within agreed timescales.
9	100% of staff complete the code of code of conduct form on joining the Council and notify managers if there are any changes.

<sup>18</sup> Disclosure and Barring Service (DBS) Guidelines: <https://www.gov.uk/government/organisations/disclosure-and-barring-service/about>



## Monitoring and evaluating the effectiveness of the governance framework

Portsmouth City Council has the responsibility for conducting at least annually, a review of the effectiveness of its governance framework. 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

There is an agreed formal process for evaluating the effectiveness of internal control, and for 2013/14 this has included:

- An evaluation of progress against previously identified governance issues.
- Analysis of compliance with the nine internal corporate governance controls. This requires Heads of Service to complete an internal control questionnaire to evidence their services' compliance with each of the controls.
- A self-assessment review of the Governance and Audit and Standards Committee, which was completed by the current Chair of the Governance and Audit and Standards Committee and the previous Chair of the Governance and Audit and Standards Committee.
- Reviews of:
  - The effectiveness of Internal and External Audit.
  - External Audit's Annual Plan and opinion.
  - The Annual Internal Audit report and opinion.
  - The Corporate Risk Directory.
  - Issues identified through business planning and performance management.
  - Corporate complaints and any complaints regarding Members.
  - Freedom of information requests.
  - Data protection and information governance issues.
  - Employee Opinion and Pulse Survey results.
- Analysis of recommendations and actions arising from the following peer challenges/inspections:
  - Corporate peer challenge (March 2013).
  - Inspection of RIPA activity and compliance with codes of practice by the Office of Surveillance Commissioners Inspection (April 2013)
  - 14-19 peer challenge (June 2013).
  - HMIP Inspection (December 2013).
  - Pre-birth to 5 peer challenge (January 2014).
  - Safeguarding Ofsted Inspection (TBC)
  - School Improvement Ofsted Inspection (TBC)

## Significant governance issues for 2013/14

Portsmouth City Council have completed a number of actions over the last year, that have addressed or alleviated significant governance issues identified in the 2012/13 Annual Governance Statement. The following significant governance issues have been identified and further actions have been put in place against each, in order to strengthen the Council's governance arrangements.

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
1	The Constitution has not been reviewed/formally updated for a number of years.	Highlighted by the Corporate Governance Group	a-Set up a working group to review the Constitution.	Updated constitution published on Council website	Michael Lawther, City Solicitor	Quarterly meetings
2	Mandatory training requirements are unclear and staff are not completing known requirements such as financial rules training.	Highlighted through ICQs and Internal Audit findings.	a-Learning and Development to communicate mandatory training requirements.	100% of staff have completed the mandatory training requirements.	Roland Bryant, Learning and Development Business Partner	Quarterly review meetings
			b-Managers to check staff complete outstanding mandatory training requirements through the PDR process.		Liz Aplin, Operational Training Manager	Ongoing- in line with PDR program
3	Non-completion of financial rules training, resulting in non-compliance with Financial Rules	2012/13 AGS	Training programme on new financial rules to be updated and rolled out.	Training updated and 100% of relevant staff have completed the training	Chris Ward, Head of Finance/ Paul Thomas, Senior Accountant	January 2015
4	Policyhub is not accessible to all staff and there is scope to improve the reporting capability.	Highlighted through ICQs	a-Managers to ensure relevant policies are cascaded to and read by staff who are unable to access Policyhub.	100% of staff receive relevant policies and reports can be run to check % of staff within each service who have read corporate policies.	Policyhub Board	Ongoing
			b-Policyhub board to consider upgrading Policyhub to enable more intelligent reporting.			



Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
5	Not all members of staff are receiving Performance Development Reviews (PDRs).	2012/13 AGS and highlighted through ICQs	a-Report to be progressed to Employment Committee outlining the findings of the PDR review.	Recommendations to be implemented.	Roland Bryant, Learning and Development Business Partner	Analysis to be completed September 2014  Report to Employment Committee, January 2015
			b- All managers ensure that there staff have received a PDR within the last year.	100% staff have received a PDR within the last year		
6	Not all services have completed table-top exercises to test the robustness of their service business continuity plan.	2012/13 AGS and highlighted through ICQs	a-All services to complete a table-top exercise and amend their plans based on the findings.	100% of services have completed a table-top exercise. Aim for 30% of services to complete exercise each year.	Kate Scott, Civil Contingencies Officer	Ongoing review on a 3 yearly program
7	There has been an increase in the number of data breaches and there is scope to improve data security.	Data breaches incident log and ICQs	a-All staff to adhere to the clear desk clear screen policy and Managers must undertake a programme of spot checks to test compliance. If issues are found, they must be escalated and addressed.	Reduction in data breaches.	Helen Magri, Corporate Information Officer/ Michael Lawther, City Solicitor	April 2015.
			b-In order to prevent inappropriate access to customer records for personal gain the following actions need to be undertaken: <ul style="list-style-type: none"> <li>• Formal Action Policy instigated in each case</li> <li>• Incidents reported to the ICO.</li> <li>• Reminder sent to all staff via Team Brief not to access accounts without a business need</li> <li>• Staff with access to certain systems have signed specific declarations to say systems will not be accessed inappropriately</li> <li>• Auditing functionality introduced on systems.</li> <li>• Revisit Data Protection Healthcheck with a view to rolling out again across the Authority</li> </ul>	Reduction in number of complaints received/instances identified.		

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
8	Corporate performance management arrangements need strengthening.	Peer Challenge March 2013	a-Further develop the corporate approach to performance management, with a greater focus on KPIs, milestones and risk management.	A more consistent approach to the performance management of business plans, identifying performance risks and good practice	Kelly Nash, Corporate Performance Manager	Developing on a quarterly basis
9	There are public buildings that do not come under the auspices of the Council to undertake legionella testing.	2012/13 AGS	a-A system needs to be established to ensure high risk areas are tested. b-All issues identified need to be escalated to Janet Maxwell, Director of Public Health.	Issues are identified, addressed and flagged with the Director of Public Health.	John Bean, Head of Maintenance	Ongoing-issues to be escalated as they are identified
10	Understanding of public grant conditions and its intended use is fully understood at political and corporate levels.	2012/13 AGS	a. Improve depth of public health understanding at Head of Service and Member level to facilitate prioritisation of grant investment.	Public Health grant invested in prevention initiatives which deliver improvement in health outcomes defined by Public Health Outcomes Framework	David Price, Head of Business Strategy (Public Health Portsmouth)/ Janet Maxwell, Director of Public Health	Ongoing
b. Continue to work with Health & Wellbeing Board to support system-wide prevention through partnering arrangements.						
c. Provide regular reports to Health and Social Care Cabinet.						
d. Appropriate projects to be submitted to Corporate Project Board.						
e. Explore changes to corporate policies which have a public health implication being reviewed by the Director of Public Health						
11	Restricted access to NHS data, as a consequence of the Health & Social Care Act, is having a detrimental impact local public health intelligence analysis and forward planning	2012/13 AGS	As a national issue, resolution is being led by Public Health England.  Local plan in place to ensure appropriate governance arrangements meet the levels of assurance required by the HSCIC information governance toolkit.	Relevant NHS data is made available	David Price, Head of Business Strategy (Public Health Portsmouth) Janet Maxwell, Director of Public Health	Ongoing

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
12	The governance, partnership and management arrangements for Portsmouth Youth Offending Team (YOT) were judged to be ineffective by the HM Inspectorate of Probation.	December 2013 YOT Inspection	a-The Management Board provides effective leadership by holding the YOT and its partners to account to ensure high quality practice and achieve successful outcomes (HMIP1). b-All partners contribute actively to effective leadership, including through regular attendance at the YOT Management Board (HMIP2).	To have in place an effective YOT Board with full, consistent and appropriate membership to lead the improvement programme.	Stephen Kitchman, Head of Children's Social Care and Safeguarding	April 2014
			c-The YOT have a full complement of competent case managers and other specialist staff in place. This includes a suitably skilled education officer to maintain the effectiveness of this work and to develop the range of training opportunities and links with employers (HMIP3).	To have in place a full complement of suitably qualified and experienced case managers including specialist roles.		June 2014
			d- Data on appropriate local outcome measures, including health; education, training and employment; diversity; and safeguarding are received, scrutinised by the YOT Management Board and used to improve services (HMIP4).	The YOT Board has access to accurate and timely data through a new Performance Management Framework		June 2014
			e-Case managers have a good understanding of effective practice and YOT expectations upon them, and are subject to effective performance management (HMIP7).	All staff will be clear on effective practice and effectively and robustly performance managed.		October 2014
13	During 2013, the Council failed to respond to 15.5% of Freedom of Information requests within statutory timescales.	Internal Audit	Actions TBC following completion of audit.	Pending	Helen Magri, Corporate Information Officer	April 2015

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
14	Ofsted action points following inspection July 2014	Ofsted inspection report due August 2014	Monitoring progress of improvement plan following Ofsted inspection.	Issues identified in report, addressed via improvement plan. Progress monitored quarterly.	Julian Wooster, Director of Children's Services/ Hayden Ginns, Commissioning and Partnership Manager	Quarterly progress meetings
15	Member training and political development is not systematic nor sufficiently championed and would benefit from more robust succession planning	2012/13 AGS	Review is now complete; paper that summarises the current training offer and recommendations for a more systematic and tailored political development and training offer needs to be taken to the next group leaders meeting.	New training program is agreed and implemented where appropriate	Michael Lawther	Progress to be made following next group leaders meeting
16	Work undertaken by the Building Control Surveyor is not checked	Audit Report	Actions were to fill the Building Control Manger post and carry out spot checks, however this is not currently taking place.	Audit recommendations implemented	Claire Upton-Brown	Next quarter after Audit follow up

## Effectiveness of the system of internal audit

On 1<sup>st</sup> April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted across the UK, as the prescribed Auditing Standards in accordance with the Accounts & Audit Regulations. The PSIAS replaces the CIPFA Code of Practice for Internal Auditors in Local Government.

In accordance with the Standards the Chief Internal Auditor carries out an annual self-assessment of the Internal Audit Section's performance against PSIAS measuring the compliance with the definition of Internal Audit and the Code of Ethics. There is also a requirement to have an external assessment every five years and it is proposed that this will be a peer review carried out by another local authority. 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. The Annual Audit opinion must declare whether the service complies with the Standards or not and any action required to ensure compliance as well as being reported in the Annual Governance Statement.

Due to the number of critical and high risk exceptions the Audit opinion for 2013/14 is that only limited assurance on the effectiveness of the control framework can be given with the areas of most concern highlighted in our Annual audit Report. Internal Audit is concerned with the overall effectiveness of the control framework and is working with Heads of Services, Strategic Directors and the Chief Executive to improve on specific areas of control and risk management weaknesses. In compliance with the Public Sector Internal Audit Standards a self-assessment has been carried out on the work performed by the Internal Audit Section that demonstrates compliance with the standards.

## Summary of significant governance issues for 2013/14

The review of effectiveness has identified 16 significant governance issues within the Council's governance framework. Over the coming year, Portsmouth City Council will take steps to address the issues that have been identified in order to improve the Council's governance arrangements and improve assurance in the areas of most concern. Progress will be monitored and reported to the Governance and Audit and Standards Committee on a quarterly basis over the next year.

## Signed on behalf of Portsmouth City Council

.....  
**David Williams**  
Chief Executive

.....  
**Date**

.....  
**Cllr Donna Jones**  
Leader of the Council

.....  
**Date**

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Committed to clearer communication.

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### 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)	<b>Core Principle: Focusing on the purpose of the Authority; outcomes for the Community and creating and implementing a vision for the local area.</b>		
(1.1)	<b>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.</b>		
(1.1.1)	Develop and promote the authority purpose and vision.	-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 <a href="#">Regeneration Strategy</a> (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. - <b>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.</b>	<b>Improve the governance arrangements for the Shaping the Future Programme</b>  <b><u>Upload service level business plans onto PCC website (and remove corporate plan)</u></b>

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).	<b>PCC website to include corporate principles.</b>
(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 <a href="#">Health and Wellbeing Board</a> , the Children's Trust and the <a href="#">Safer Portsmouth Partnership</a> ) 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 <a href="#">Joint Strategic Needs Assessment</a> .	<b>Remove reference to corporate priorities</b>
(1.1.4)	Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance.	- <a href="#">Flagship</a> 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 <a href="#">statement of accounts</a> is published on an annual basis, at the same time as the Annual Governance Statement.	
<b>(1.2)</b>	<b>Supporting Principle: Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning</b>		
(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 <a href="#">Joint Strategic Needs Assessment</a> (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 <a href="#">complaints procedure</a> to deal with failures in service delivery. -There are separate processes for people wishing to make a complaint against <a href="#">adult's social care</a> , <a href="#">children's social care</a> or <a href="#">schools</a> . --If residents/service users are not happy with how their complaint has been handled by the Council, they can contact the <a href="#">Local Government Ombudsman</a> 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
<b>(1.3)</b>	<b>Supporting Principle: Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money</b>		
(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"> <li>-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 <a href="#">CIPFA Value for Money toolkit</a> will be used to make a judgement.</li> <li>-The <a href="#">Audit Commission</a> issue an annual value for money opinion.</li> <li>-In depth value for money reviews are carried out when deemed necessary.</li> <li>-Procurement arrangements are in place to ensure that the organisation secures the right outcomes at the right price within a collaborative and consistent manner.</li> <li>-Robust category management arrangements are in place to ensure the organisation maximises its spending power and minimises waste.</li> <li>-The Chief Finance Officer provides financial advice and ensures the authority providers prudential financial framework.</li> <li>- The Council's priorities and objectives are aligned to principal statutory obligations and relate to available funding.</li> <li>-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.</li> </ul>	<b>Develop a more robust approach to understanding VfM across the organisation and embed in business planning.</b>
(1.3.2)	Measure the environmental impact of policies, plans and decisions	<ul style="list-style-type: none"> <li>-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</li> <li>-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.</li> </ul>	
<b>(2)</b>	<b>Core Principle: Members and officers working together to achieve a common purpose with clearly defined functions and roles</b>		
<b>(2.1)</b>	<b>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</b>		
(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 <a href="#">City Constitution</a> 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.	
(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"> <li>-As above.</li> <li>-All posts have job descriptions and are banded depending on responsibilities undertaken.</li> </ul>	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
<b>(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</b>			
(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 <a href="#">City Constitution</a> .	
(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 <a href="#">PCC website</a> . -The Chief Executive's role and responsibilities are set out in the job description and <a href="#">City Constitution</a> .	
(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
<b>(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</b>			
(2.3.1)	Develop protocols to ensure effective communication between members and officers in their respective roles.	<a href="#">Part 4d of the City Constitution</a> 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"> <li>-All staff are provided with a contract outlining the terms and conditions of their appointment.</li> <li>- The Council has robust pay and conditions policies and practices for employees, and structured pay scales reflecting the competencies required for each role.</li> <li>-An independent remuneration panel can be appointed as and when required.</li> </ul>	
(2.3.3)	Ensure that effective mechanisms exist to monitor service delivery	<ul style="list-style-type: none"> <li>-Scrutiny panels are in place to challenge and review.</li> <li>-Service delivery and performance is monitored quarterly.</li> </ul>	
(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"> <li>- Key plans, strategies and proposed changes to service delivery are put out for consultation and published on the Council's website - <a href="https://www.portsmouth.gov.uk/ext/the-council/policies-and-strategies/our-policies-and-strategies.aspx">https://www.portsmouth.gov.uk/ext/the-council/policies-and-strategies/our-policies-and-strategies.aspx</a></li> <li>-The <a href="#">Medium Term Resource Strategy</a> 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.</li> </ul>	
(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"> <li>-The Council has defined legal agreements</li> <li>-Terms of references are set up and outlined key legal obligations of parties within the partnership.</li> </ul>	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
(3)	<b>Core Principle: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour</b>		
(3.1)	<b>Supporting Principle: Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance through</b>		
(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"> <li>-Meetings are held in an open forum</li> <li>-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 <a href="#">here</a> (internal only).</li> </ul>	
(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"> <li>--<a href="#">PolicyHub</a> 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.</li> <li>-The Council has a whistleblowing Policy, which sets out how to report concerns and how they will be handled.</li> <li>-Members are required to complete a <a href="#">code of conduct</a> on appointment.</li> <li><b>-100% of employees complete the <a href="#">code of conduct</a> upon joining the organisation. All Managers must use the appropriate procedures for dealing with misconduct.</b></li> <li><b>- 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 <a href="#">disclosure barring policy</a>.</b></li> <li><b>- All staff adhere to <a href="#">clear desk and clear screen practices</a> with regards to sensitive/personal information.</b></li> </ul>	
(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"> <li>-All members of the council are required by law to complete a declaration of pecuniary interests form to register their financial interests.</li> <li>- Members are required to declare any interests at the start of every meeting that they attend in accordance with Standing Orders.</li> <li>-Members and Officers are required to complete a <a href="#">gifts and hospitality register</a>.</li> <li>-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.</li> <li>-PCC follows a procurement process, to ensure the most appropriate goods and services are acquired without any bias and conflicts of interest.</li> <li><b>-All services understand our legal equalities duties, and embed them within service projects and plans.</b></li> </ul>	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
		<p>-<a href="#">Equality impact assessments</a> 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 <a href="#">Equality and Diversity Strategy 2014-17</a> 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><b>(3.2) Supporting Principle: Ensuring that organisational values are put into practice and are effective</b></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 <a href="#">City Constitution</a>. 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><b>Ensure staff are trained on the new rules</b></p>
(3.2.3)	<p>Develop and maintain an effective standards committee.</p>	<p>-The Council operates a <a href="#">Governance and Audit and Standards Committee</a>. 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 <a href="#">City Constitution</a>.</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.	-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.	<b>Review the compact</b>
<b>(4)</b>	<b>Core Principle: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>		
<b>(4.1)</b>	<b>Supporting Principle: Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny</b>		
(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.	-The Council operates the following Scrutiny Panels: 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.	-Key decision meetings are held in public. -Meetings are minuted and all key decisions recorded. -Minutes of key decision meetings are uploaded onto the <a href="#">PCC website</a> . -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.	-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	-The Chair of the Governance and Audit and Standards committee is independent (i.e. he does not sit on any other regulatory committee).	



Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
	committee.		
(4.1.5)	Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints.	<ul style="list-style-type: none"> <li>- The Council has a clear and transparent <a href="#">corporate complaints</a> procedure for anyone wishing to make a complaint.</li> <li>-There are separate processes for people wishing to make a complaint against <a href="#">adult's social care</a>, <a href="#">children's social care</a> or <a href="#">schools</a>.</li> <li>-If residents/service users are not happy with how their complaint has been handled by the Council, they can contact the <a href="#">Local Government Ombudsman</a> who will investigate complaints in a fair and independent way.</li> <li><b>-Complaints are dealt with in a timely manner, responded to effectively, and outcomes recorded.</b></li> </ul>	
<b>(4.2)</b>	<b>Supporting Principle: Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs</b>		
(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"> <li>-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.</li> <li>-Specific training for each committee is available on an annual basis.</li> <li>-Staff are required to use a report template for items being progressed to decision meetings. The template provides guidance on content and format.</li> </ul>	
(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"> <li>-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.</li> <li>-All key decisions and actions are minuted.</li> </ul>	
<b>(4.3)</b>	<b>Supporting Principle: Ensuring that an effective risk management system is in place</b>		
(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"> <li>-In 2013 PCC carried out an appraisal of its risk management arrangements to see if they met 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.</li> <li><b>-Risk is regularly reviewed and tangible mitigation measures are put in place and tested on a regular basis.</b></li> <li><b>-All services have business continuity plans that are regularly tested and reviewed.</b></li> </ul>	<b>100% services complete test robustness of their business continuity plan</b>
(4.3.2)	Ensure that effective arrangements for whistleblowing are in place to which officers, staff and all those contracting	-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.	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
	with or appointed by the authority have access.	-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.	
<b>(4.4)</b>	<b>Supporting Principle: Using their legal powers to the full benefit of the citizens and communities in their area</b>		
(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 <a href="#">City Constitution</a> .	
(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. - <a href="#">PolicyHub</a> 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.	
<b>(5)</b>	<b>Core Principle: Developing the capacity and capability of members and officers to be effective</b>		
<b>(5.1)</b>	<b>Supporting Principle: Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles</b>		
(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. -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	



Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
		public life, keeping yourself and others safe, support available, PCC and how decisions are made and the future vision.	
(5.1.2)	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>-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.</p> <p>-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.</p> <p>-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</p> <p>-Specific training for each committee is available on an annual basis.</p> <p>-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.</p> <p>-The <a href="#">ADASS</a> and <a href="#">ADCS</a> provide advice and support to Children's and Adult's Services.</p>	
<b>(5.2)</b>	<b>Supporting Principle: Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group</b>		
(5.2.1)	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>-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.</p> <p><b>-100% of employees are given good quality PDRs, and training needs are identified and sent to HR.</b></p>	<b>Current PDR process is being reviewed.</b>
(5.2.2)	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>-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.</p> <p>-The Council provide a Leadership and Management Programme, which aims to create a better performing workforce</p> <p>-Committee members are given specialist (non-political) training to ensure that they are effective in their role.</p> <p>-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.</p>	
(5.2.3)	Ensure that arrangements are in place for reviewing the performance of the executive as a whole and of individual	-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	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
	members and agreeing an action plan, which might for example aim to address any training or development needs.	feedback from their staff.	
<b>(5.3)</b>	<b>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.</b>		
(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.	- <a href="#">Neighbourhood Forums</a> 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 <a href="#">Council's website</a>	
(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.	<b>Review workforce planning</b>
<b>(6)</b>	<b>Core Principle: Engaging with local people and other stakeholders to ensure robust public accountability.</b>		
<b>(6.1)</b>	<b>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.</b>		
(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 <a href="#">City Constitution</a> 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 <a href="#">Full Council</a> minutes. -Annual reports are progressed to key committee meetings.	
<b>(6.2)</b>	<b>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</b>		
(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: <a href="#">Flagship Magazine</a> ; <a href="#">House Talk Magazine</a> , <a href="#">Term Times Magazine</a> , and Something for the Weekend Newsletter. -There are a number of ways people can connect with the council, many of which are listed on the <a href="#">'Have your say'</a> council webpage. -Local people have the option to engage in a dialogue through: social media sites (including	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
		a <a href="#">community engagement blog</a> , <a href="#">facebook</a> and <a href="#">twitter</a> ), <a href="#">petitions scheme</a> , <a href="#">neighbourhood forums</a> , healthwatch Portsmouth, the rant and rave forum, <a href="#">council meetings</a> (open to the public), their local <a href="#">Councillor</a> and through planned <a href="#">consultations</a> .	
(6.2.2)	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>-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 <a href="#">Equality and Diversity Strategy</a>, 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)	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>-Key plans, strategies and proposed changes to service delivery are put out for consultation and published on the Council's website - <a href="http://www.portsmouth.gov.uk">http://www.portsmouth.gov.uk</a></p> <p>-The Council have a <a href="#">consultation process</a> 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)	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.	The Annual Governance Statement is approved by the Governance and Audit and Standards Committee, in September along with the <a href="#">annual statement of accounts</a> . 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.	
(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	-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	

Ref	Portsmouth City Council (PCC) Commitments	Current Governance Arrangements	Planned Improvements
	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.	organisation and delivering the best possible public services. This is reflected in the Council's <a href="#">FOI Policy</a> . -Key decision meetings are open to the public (unless confidential).	
<b>(6.3)</b>	<b>Supporting Principle: Making best use of human resources by taking an active and planned approach to meet responsibilities to staff</b>		
(6.3.1)	Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making.	-There is a consultation process for staff to make sure their opinions, ideas and suggestions are listened to. -The Council actively consults with trade unions about issues that affect staff.	



**Portsmouth**  
*CITY COUNCIL*

**STATEMENT  
OF  
ACCOUNTS  
2013/14**

.....

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

.....

**Date**

.....

**Councillor Simon Boshier**  
**Chair of the Governance and  
Audit and Standards Committee**

.....

**Date**

**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2013/14**

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**PORTSMOUTH CITY COUNCIL**  
**Annual Report 2013/14**

***EXPLANATORY FOREWORD***

**Financial Year Ended 31st March 2014**

**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 Council has applied a preparer's materiality limit of £5m in compiling the financial statements. The Council has not generally disclosed items less than £5m in its accounts.

**Financial Statements 2013/14 – Commentary**

The Financial Statements comprise the following:

- **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.
  
- **Comprehensive Income & Expenditure Statement.** This statement explains the change in the net worth of the Council, i.e. the value of its assets less its liabilities. This statement includes the deficit or surplus on the provision of services and other factors affecting the Council's net worth. The statement is based on International Financial Reporting Standards and includes depreciation and impairments (charges relating to the use and consumption of assets), and the actuarial cost of providing defined benefit pensions. The effect of regulations is such that the Council does not fund these costs from taxation as they are incurred. This Statement also includes capital grants and contributions which the Council is not permitted to use to fund revenue expenditure.
  
- **Balance Sheet.** The balance sheet shows the net worth of the Council, i.e. its assets less its liabilities as at 31 March 2014. The Council's net worth is balanced by its reserves which are classified into usable and unusable reserves. Usable reserves may be used by the Council 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 unusable reserves 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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**Annual Report 2013/14**

- **Movement in Reserves Statement.** This statement shows the movement in the year on the different reserves held by the Authority, analysed into usable reserves and unusable reserves. This statement includes:
  - The total comprehensive income and expenditure from the Comprehensive Income and Expenditure Statement.
  - The regulatory adjustments that are made to remove the effects of depreciation, actuarial pension costs and capital grants and contributions to show the statutory amounts charged to the General Fund and the Housing Revenue Account for Council Tax setting and dwelling rent setting purposes. These adjustments also include the application of resources to finance capital expenditure.
  - Transfers to earmarked reserves which the Council has decided to set aside for specific purposes.
- **Cash Flow Statement.** This statement shows how the authority generates and uses cash.
- **Notes to the Financial Statements.** These provide supporting information and analysis of the core financial statements described above.
- **Collection Fund.** This statement shows the transactions of the Council as 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.
- **Housing Revenue Account (HRA).** This account shows income and expenditure arising from the provision of Council Housing based on International Financial Reporting Standards. This section of the accounts also includes a Statement of Movement on the HRA which shows the statutory amounts charged to the HRA for rent setting purposes.

**Changes in Accounting Policies**

The only significant change in accounting policy between 2012/13 and 2013/14 relates to pensions costs and results from the adoption of a new International Financial Reporting Standard. The effect of these changes has been 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. A detailed explanation of the effects of this change in accounting policy is given in Note 6 to the accounts.

## PORTSMOUTH CITY COUNCIL Annual Report 2013/14

### Comprehensive Income & Expenditure Statement and Balance Sheet

#### Net Cost of Continuing Operations

The net cost of continuing operations has fallen by £32.0m from £175.7m in 2012/13 to £143.7m in 2013/14. There are two main reasons for this:

- Firstly net expenditure on Children's and Education Services fell by £11.9m from £58.8m in 2012/13 to £46.9m in 2013/14. This is the result of a change in the fortunes of the property market. The value of the land on which schools are located had fallen in recent years resulting in impairment charges to the Comprehensive Income and Expenditure Account in 2012/13. However, in 2013/14 the property market turned round and land values increased. This prevented further impairment charges being incurred in 2013/14. In addition some sites that had previously been revalued downwards, were revalued upwards in 2013/14 resulting in the reversal of some impairment charges in prior years.
- Secondly the net surplus on Local Authority Housing (HRA) increased by £12.9m from £15.4m in 2012/13 to £28.3m in 2013/14. This is principally due to the reversal of impairment charges relating to Council houses.

Services incur impairment charges when property, plant and equipment is either damaged or revalued downwards. If an asset is subsequently revalued upwards the impairment charge to the service is reversed, reducing that service's expenditure. Impairment charges only crystallise in cash terms if the asset is sold and regulations have the effect of reversing out impairment charges in the Movement in Reserves Statement so that they do not affect the General Fund and HRA balances for tax setting and dwelling rent setting purposes.

Significant reductions in the gross expenditure and the gross income relating to Central Services to the Public have occurred. In 2012/13, the Council received a Council Tax Benefit Subsidy of £14.2m from the Government which is included under Central Services to the Public. Also included under Central Services to the Public was a transfer of Council Tax Benefit of £14.2m from the General Fund to the Collection Fund. In 2013/14 the national Council Tax Benefit system was replaced with a Local Council Tax support scheme. Council tax support which replaced Council Tax Benefit is shown in the accounts as a reduction in Council Tax due to the Collection Fund, rather than as a transfer from the General Fund. Government support for the Local Council Tax support scheme is received in the form of Revenue Support Grant. However, this is received as a non-ring fenced grant which forms part of the Council's Taxation and Non-Specific Grant Income rather than being received as a specific grant under Central Services to the Public.

#### Acquired Operations

On 1 April 2013 the Council acquired public health responsibilities under the Social Care Act 2012. The responsibilities transferred to Portsmouth City Council as a result of this act include tackling the causes of ill-health, reducing health inequalities and promoting and protecting health. Gross expenditure on Public Health was £14.0m in 2013/14 and was largely funded by a ring fenced Public Health Grant.

## PORTSMOUTH CITY COUNCIL Annual Report 2013/14

### Other Operating Expenditure

Other operating expenditure has increased by £18.3m from £12.0m in 2012/13 to £30.3m in 2013/14. The vast majority of other operating expenditure relates to losses on the disposal of non-current assets which increased by £18.5m from £11.5m in 2012/13 to £30m in 2013/14. The loss on disposal of non-current assets has arisen through the transfer of three Primary Schools, one Secondary School and one Special School to academy trusts, all of which are on long leases at a pepper corn rent.

### Taxation and Non-Specific Grant Income

The Council's Taxation and Non-Specific Grant Income increased by £53.1m from £219.1m in 2012/13 to £272.2m in 2013/14. This was principally due to the receipt of City Deal Grant. This was a one off grant of £48.8m received from the Government in 2013/14. The grant conditions require the City Deal Grant be applied for the same purposes as a capital receipt, namely to fund capital expenditure or pay the principal on borrowing. The grant conditions also require the grant to be spent by 30 June 2015. There is expected to be insufficient capital expenditure on the City Deal to apply this grant against in 2013/14 and 2014/15. Therefore £30.4m of the grant was applied to fund general capital expenditure and repay the principal on borrowings in 2013/14 in order to ensure that the grant can be used before the 30 June 2015 deadline. This will enable the resources that would have been used to fund this capital expenditure and the repayment of principal to be applied to fund City Deal expenditure when it is incurred.

The Taxation and Non-Specific Grant Income part of the Comprehensive Income and Expenditure Statement also includes Non-Domestic Rates and Non Ring Fenced Government Grants. In 2012/13 Non-Domestic Rates were collected by the Council and paid into a pool operated by the Government which then redistributed them to local authorities using a needs based formula. From 2013/14, 49% of non-domestic rates will be retained by the City Council. 50% of the non-domestic rates collected were paid to the Government and the remaining 1% was paid to the Hampshire Fire and Rescue Authority. The amount of non-domestic rates collected is affected by appeals, both lodged and potential appeals that have yet to be lodged, against the rateable values of non-domestic properties. The Council has made a provision of £13.9m in the Collection Fund to cover the estimated reduction in income resulting from these appeals. £6.8m of this provision relates to the City Council.

The amount of Non-Ring Fenced Government Grants received by the Council has increased by £47.8m from £37.6m in 2012/13 to £85.4m in 2013/14. This was principally due to the reform of non-domestic rates. Income from non-domestic rates was previously distributed through the National Non-Domestic Rate Pool. From 2013/14, 49% of non-domestic rates are retained by the Council with 50% being paid to the Government and 1% being paid to the Hampshire Fire and Rescue Authority. The 50% of non-domestic rates that is paid to the Government is redistributed to local authorities as Non-Ring Fenced Government Grants. In addition Council Tax Benefit Subsidy of £14.2m which was a specific grant under Central Services to the Public in 2012/13, has now been replaced with a Council Tax Support Grant of £13.2m which is a non-ring fenced grant included under Taxation and Non-Specific Grant Income.

## PORTSMOUTH CITY COUNCIL Annual Report 2013/14

### Other Comprehensive Income and Expenditure

In 2012/13 other comprehensive net expenditure amounted to £16.3m. In 2013/14, this part of the Comprehensive Income and Expenditure Statement saw an improvement of £103.8m with other comprehensive income amounting to £87.5m. The Other Comprehensive Income and Expenditure section of the Comprehensive Income and Expenditure Statement consists of movements in the Council's unusable reserves, principally the Revaluation Reserve and the Pensions Reserve, which affect the Council's net worth, but not its spending ability.

Overall Total Comprehensive Income and Expenditure has improved by £166.8m from a net expenditure of £17.4m in 2012/13 to a net income of £149.4m in 2013/14.

### Revaluation Reserve

On the Balance Sheet, gains amounting to £24.4m arising from the revaluation of non-current assets were posted to the Revaluation Reserve in 2013/14 (£4.6m of revaluation gains were posted to the Revaluation Reserve in 2012/13). However, these gains can only be realised by selling the assets.

### Pension Liability and Pension Reserve

The pension liability shown on the balance sheet represents the shortfall between the value of the Council's pension liability and the value of the pension fund assets. The pension fund's actuaries estimate the fund's assets and liabilities on an annual basis in order to enable the Council to comply with International Financial Reporting Standards. The Council's contributions to the pension fund are based on a full tri-annual valuation by the fund's actuaries. Regulations require the Council's actual contributions to the pension fund to be charged to the General Fund and HRA balances. This is achieved by transferring the difference between the actuarial cost of providing pensions and the Council's actual contributions from a Pension Reserve to the General Fund and HRA balances. The Pension Reserve therefore mirrors the pension liability and is not cash backed. The Pension Reserve also reflects changes to the pension liability resulting from returns on pension fund assets in excess of that expected, changes in the financial and demographic assumptions used by the actuary and liability experience.

The Council's estimated pension liability as at 31 March 2014 was £302.7m which is very significant when compared to the Council's net worth of £623.4m. The estimated pension liability was £350.6m at 31 March 2013, but fell by £47.9m in 2013/14. The principal reasons for the net decrease in the pension liability were as follows:

- The actuarial cost of benefits earned and the increase in the time weighted liability resulting from being a year closer to when pensions become payable exceeding the Council's contributions to the pension fund - £15.0m increase in liability.
- Changes to actuarial assumptions, particularly those of a financial nature - £63.0m decrease in liability.

### Other Long Term Liabilities

The Council's other principal long term liabilities consist of:

- Long Term Borrowing - £351.5m (£354.8m in 2012/13)
- Other Long Term Liabilities including service concessions (including Private Finance Initiative schemes) and debt transferred from Hampshire County Council following local government reorganisation - £103.0m (£104.3m in 2012/13)

## PORTSMOUTH CITY COUNCIL Annual Report 2013/14

The Council's total long term borrowings are therefore £454.5m (£459.1m in 2012/13). To put this into context, the Council's long term assets are valued at £1,211.2m (£1,139.0m in 2012/13).

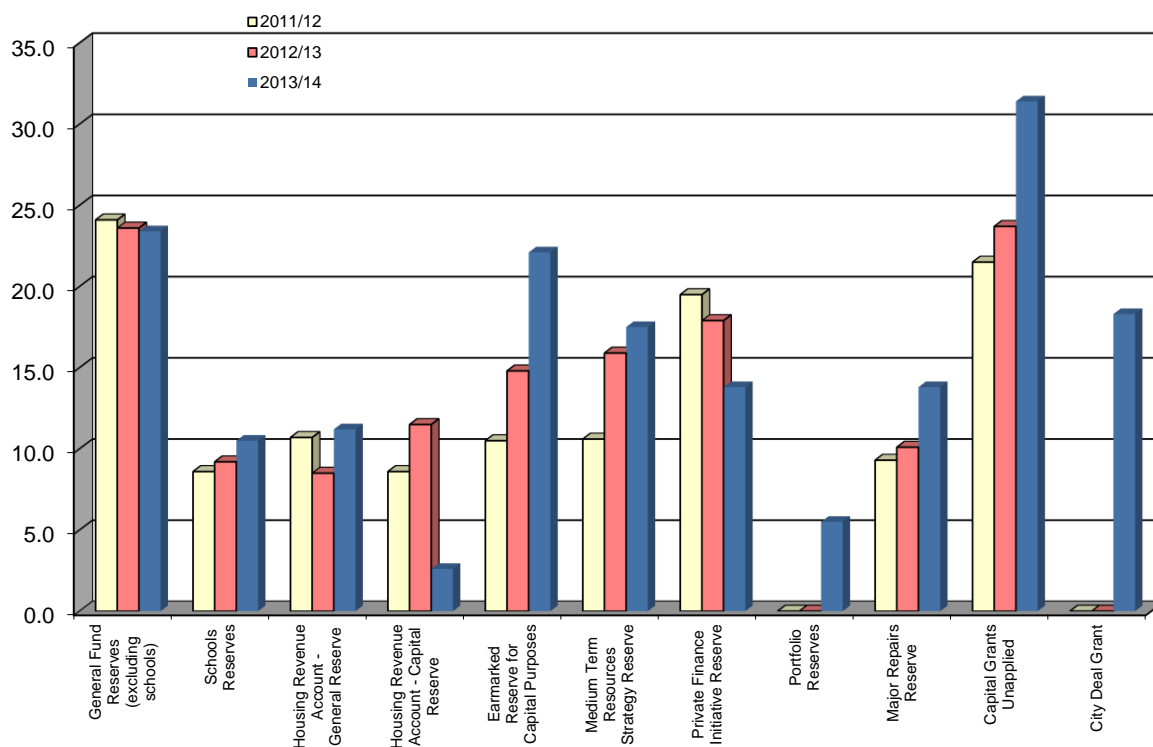
### Net Worth

The Council's overall net worth increased by £155.4m in 2013/14 from £474.0m at 31 March 2013 to £629.4m at 31 March 2014 due to the reasons set out in the Comprehensive Income and Expenditure Statement.

### Movement in Reserves Statement (MIRS)

The main usable reserves that existed at 31<sup>st</sup> March 2014 are illustrated below including a comparison of how they have moved over the last 3 years.

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



### General Revenue Reserves

These general reserves which can be applied to fund either revenue or capital expenditure 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.

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**General Fund - Balance £33.9m**

The Council's main General Fund Balance increased in the year by £1.1m, 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:

	<b>Schools (General Fund)  £m</b>	<b>Rest of City Council (General Fund)  £m</b>	<b>Total General Fund Balance  £m</b>
Balance brought forward as at 1st April 2013	(9.2)	(23.6)	(32.8)
Contribution (to) / from Reserves	(1.3)	0.2	(1.1)
<b>Balance carried forward as at 31 March 2014</b>	<b>(10.5)</b>	<b>(23.4)</b>	<b>(33.9)</b>

**NB. Brackets represent surpluses**

The total surplus (or contribution to reserves) of the City Council amounted to £1.1m. This however, consists of a contribution to School's Reserves of £1.3m and a withdrawal from General Reserves for the rest of the City Council of £0.2m.

The City Council's Revised Budget for 2013/14 (excluding schools) estimated that the City Council would make a withdrawal from Reserves of £5.6m. 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 £3.0m 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 Council's actual withdrawal from General Reserves of £0.2m represents a net improvement in the Council's position compared to its budget of £5.4m. The outturn expenditure of all services was within £5m of their budgets.

Given that the City Council currently has a forecast budget deficit of £37m over the next 3 years, this overall improvement in the future forecast of General Fund Reserves of £5.4m can now go some way towards "smoothing out" the savings required to eliminate the deficit. Alternatively, this improvement of £5.4m could be used to provide "up front" investment costs associated with "Spend to Save" schemes or "Invest to Save" schemes which are aimed at generating on-going cashable efficiencies for the Council over the medium term.

At present, the Council has a policy of maintaining a minimum level of General Fund Reserves of £6.0m in 2014/15 and rising to £12.0m for future years; any excess over and above this can be used to fund Council Services.

Plans are currently being worked up to reduce the Council's net expenditure in future years through:

- Reducing the City's dependency on Central Government Grant
- Reducing the extent to which the population needs Council services
- Increasing the efficiency and effectiveness of the Council's activities
- Withdrawing or offering minimal provision of low impact services

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**Housing Revenue Account General Reserve - Balance £11.0m**

The HRA General Reserve increased by £2.5m in the year from £8.5m in 2012/13 to £11.0m in 2013/14. This is a statutory reserve that can only be used to fund HRA (council housing) activities.

Earmarked Reserves

Earmarked reserves hold funds which the Council has decided to set aside for specific purposes.

**HRA Capital Reserve – Balance £2.6m**

The reserve supports future spending on capital projects relating to Council Housing. As this reserve was created by transferring funds from the HRA it can only be used to fund HRA (council housing) activities. In the year, the reserve decreased by £8.9m as it was applied to finance capital investment relating to Council Housing.

**Earmarked for Capital Purposes – Balance £22.1m**

This is a reserve that is maintained as a source of funding for the Capital Programme. The reserve increased in the year by £7.3m as City Deal Grant was used to finance capital expenditure that would otherwise have been funded from this reserve. The balance on this reserve will be required to finance future capital expenditure including the City Deal.

**Medium Term Resource Strategy Reserve – Balance £17.5m**

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 £1.6m mainly due to Council decisions to make net contributions of £1.6m arising from the overall City Council underspend for the financial year. The current balance of £17.5m is largely committed to funding schemes previously approved by the Council or future anticipated redundancy costs.



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**Private Finance Initiative – Balance £13.8m**

This reserve accumulates any surplus of Government Grants received in respect of Private Finance Initiative (PFI) schemes 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 £4.1m reflecting the net deficit between the Unitary Payments made to the PFI contractor and the PFI Grant, interest and contributions accruing to the reserve.

**Portfolio Reserves - Balance £5.5m**

These reserves provides a mechanism to enable portfolios to carry underspendings in one year to the next year.

Other Reserves

**Major Repairs Reserve - Balance £14.0m**

This is a statutory reserve which holds cumulative depreciation charged to the HRA. This reserve may only be applied to fund HRA (council Housing) capital expenditure or to repay HRA debt. This reserve increased by £3.9m in 2013/14 as the depreciation charged to the HRA exceeded the amount of the reserve applied to fund HRA capital expenditure.

**Capital Grants Unapplied - Balance £31.4m**

This reserve holds grants that may only be applied to fund capital expenditure. This reserve increased by £7.6m in 2013/14 as City Deal Grant was applied to fund capital schemes that were originally going to be funded from this reserve. The increase in the balance on this reserve will be required to finance future capital expenditure including the City Deal.

**City Deal Grant - Balance £18.3m**

The Council received a City Deal Grant of £48.8m in 2013/14. £30.4m of this grant has been applied to finance capital expenditure and repay debt. The balance on this reserve is fully committed to financing future capital schemes.

Capital Investment

Capital investment in 2013/14 amounted to £92.0m (£55.4m in 2012/13) and included:

- Tipner motorway junction £9.9m
- Capital works to Council dwellings £10.2m
- Somerstown Hub £7.6m
- Northern Road Bridge replacement £5.4m

The Council has £92.0m available to fund capital expenditure consisting of the General Fund Earmarked Reserve for Capital Purposes £22.1m, the HRA Major Repairs Reserve £13.8m, City Deal Grant £18.3m, other capital grants unapplied £31.4m and other minor sources amounting to £6.4m.

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

- Coastal flood defences £54.2m
- City Centre road upgrade £15.0m
- Horsea Island bridge link £35.0m
- Development of Port Solent, Horsea Island and Tipner to provide new housing and employment under the City Deal £124.2m
- Highways life cycle replacement works £16.8m
- Capital investment to support vulnerable people £11.3m
- Major repairs to council dwellings £132.2m

### **The Cash Flow Statement**

In the year the Council's cash (and cash equivalents) position increased by £45.1m from £24.2m as at 31 March 2013 to £69.3m as at 31 March 2014. This was largely due to the significant increase in investments held in money market funds on the Balance Sheet date compared with the previous year. This resulted principally from the receipt of £48.8m of City Deal Grant on 28 March 2014.

### **The Collection Fund**

This statement shows the transactions of the Council as 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.

There were two significant changes to the Collection Fund in 2013/14 resulting from changes to legislation. One of the changes is the abolition of the National Non-Domestic Rate Pool, the other is the abolition of the national Council Tax Benefit system which has been replaced by local schemes. These are described on page 7. Council tax support which replaced Council Tax Benefit is shown in the accounts as a reduction in Council Tax due to the Collection Fund, rather than as a transfer from the General Fund. In addition, some households who would have had their entire Council Tax met by Council Tax Benefit now have to pay 20% of the Council Tax liability arising from the dwelling that they occupy. For these reasons, the Collection Fund shows a greater amount of Council Tax being due in 2013/14, but does not show any Council Tax Benefit being received from the General Fund.

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 and of the value of appeals against the rateable values provided by the Valuation Office Agency for the purpose of calculating non-domestic rates. At the beginning of the year, the fund was in a break even position. When the Budget was revised in February 2014 it was anticipated that there would be a £1.4m surplus on Council Tax and a £4.9m deficit on non-domestic rates, ie. the fund would have a net deficit £3.5m. The Budget for 2014/15 was prepared on this basis i.e. that there would be a repayment of this deficit of £3.5m during 2014/15.

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### Non-Domestic Rates

The unplanned deficit relating to non-domestic rates was £10.7m (ie. the actual deficit of £15.6m less the budgeted deficit of £4.9m) and this is a consequence of the late decision not to spread the provision for losses on appeal over 5 years which is permitted by regulations. This decision was made in order to trigger safety net payments from the Department of Communities and Local Government and is felt to be financially beneficial to the Council in the medium term.

The City Council administers the Collection Fund and collects the non-domestic rates on behalf of the City Council, the Department of Communities & Local Government, and the Hampshire Fire & Rescue Authority and therefore any surplus or deficit on the fund is shared with them. Should the unplanned deterioration on non-domestic rate income of £10.7m remain, this would be shared as follows:

- Department of Communities & Local Government £5.4m
- Portsmouth City Council £5.2m
- Hampshire Fire & Rescue Authority £0.1m

### Council Tax

An unplanned surplus of £0.5m was made on the collection of Council Tax (ie. the actual surplus of £1.9m less the budgeted surplus of £1.4m). The overall cause of this surplus is higher than anticipated Council Tax income receivable than estimated.

The Council Collects Council Tax on behalf of the City Council, the Police Authority and the Hampshire Fire and Rescue Authority and therefore any surplus or deficit on the fund is shared with them.

### Overall Position

The actual combined deficit on the Collection Fund at the end of 2013/14 was £13.7m i.e. £10.2m higher than anticipated. Since the Budget and Council Tax for 2014/15 was set on the basis of a £3.5m deficit, the deterioration of £10.2m from the estimate must be recovered through the 2015/16 Budget Process. An estimate of the Collection Fund balance as at the end of 2014/15 will be revised in the light of this deterioration and all other circumstances just prior to setting the Council Tax and Budget for the next financial year. Any estimated deficit at that time will then be recovered from constituent Authorities during the next financial year.

Overall the City Council has a £5.2m share of the unplanned deficit on non-domestic rate collection and a £0.4m share of the surplus on Council Tax Collection, i.e. a net overall unplanned deficit of £4.8m.

Any unplanned deficit that relates to the City Council (i.e. £4.8m) will be transferred from General Fund Reserves in 2014/15 and planned into future financial forecasts accordingly.

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**The Housing Revenue Account (HRA)**

Overall the HRA made a surplus of £22.1m in the year 2013/14. This represents a major improvement compared with 2012/13 (£10.9m surplus) of £11.2m. This improvement has principally been caused by the reversal of impairment charges on Council dwellings. Whilst the HRA made a surplus, the accounting arrangements for Local Authorities are such that many of the charges including impairment charges 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 and £15.1m was applied to fund capital expenditure. The combination of all of those adjustments allowed under statute turn the £22.1m surplus into a £6.4m deficit.

After a transfer from the HRA Capital Reserve of £8.9m to contribute towards the cost of capital expenditure funded from the HRA, the HRA General Reserve increased by £2.5m. This £2.5m increase in the HRA General Reserve represents the excess of income generated in 2013/14 over and above total expenditure.

**Conclusion**

In 2013/14 the Council has experienced a reduction in its General Reserves (excluding schools) of £0.2m 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 £5.6m, therefore this reduced withdrawal from General Reserves of £0.2m represents an overall underspend against the £5.6m budget of £5.4m. The £5.4m improvement arose from underspendings, in the main, arising from the non-use of contingencies, and the receipt of a safety net payment from the Government under the non-domestic rates retention scheme that had not been budgeted for.

The deficit on the Collection Fund of £13.7m is higher than the anticipated deficit of £3.5m reflected within the Budget. The City Council's share of the £10.2m unplanned budget deficit is £4.8m. Combining this deterioration in the City Council's share of the Collection fund deficit with a £5.4m underspend has resulted in a net improvement in the Council's overall medium term financial position of £0.6m compared with the revised budget.

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

In addition to this, the Housing Revenue Account made a surplus after statutory adjustments and contributions from the HRA Capital Reserve of £2.5m compared to a planned deficit of £0.1m. The Account continues to be robustly managed with healthy projections over the medium term.

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**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 2014.

Signed

Chris Ward  
Head of Finance and section 151 Officer  
23 September 2014.

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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.

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Restated 2012/13 Gross Expenditure £000	2012/13 Gross Income £000	Restated 2012/13 Net Expenditure £000	<u>Comprehensive Income and Expenditure Statement</u>	Not es	2013/14 Gross Expenditure £000	2013/14 Gross Income £000	2013/14 Net Expenditure £000
20,475	(16,419)	4,056	Central Services to the Public		6,326	(1,878)	4,448
21,273	(3,176)	18,097	Cultural Services		21,513	(3,195)	18,318
25,050	(5,918)	19,132	Environmental and Regulatory Services		20,815	(2,841)	17,974
5,072	(2,301)	2,770	Planning Services		6,544	(5,225)	1,319
190,764	(131,954)	58,806	Children's and Education Services		178,132	(131,163)	46,969
41,911	(23,809)	18,102	Highways and Transport Services		43,531	(25,276)	18,255
56,936	(72,456)	(15,421)	Local Authority Housing (HRA)		51,106	(79,382)	(28,276)
122,593	(109,764)	12,731	Other Housing Services		123,255	(111,438)	11,817
77,238	(24,982)	52,260	Adult Social Care		82,879	(31,800)	51,079
4,543	(399)	4,144	Corporate and Democratic Core		4,283	(124)	4,159
1,050	0	1,050	Non Distributable Costs		438	0	438
<b>566,905</b>	<b>(391,178)</b>	<b>175,727</b>	<b>Net Cost of Continuing Operations</b>		<b>538,822</b>	<b>(392,322)</b>	<b>146,500</b>
0	0	0	Acquired Operations - Public Health	24	13,990	(16,823)	(2,833)
<b>566,905</b>	<b>(391,178)</b>	<b>175,727</b>	<b>Net Cost of Services</b>		<b>552,812</b>	<b>(409,145)</b>	<b>143,667</b>
		11,451	Loss / (Gain) on the disposal of Non-Current Assets	46			29,987
		71	Precepts and Levies				36
		722	Amounts payable into the Housing Capital Receipts Pool				751
		(150)	Portchester Crematorium				(150)
		(84)	Miscellaneous Operating Income and Expenditure				(356)
		<b>12,010</b>	<b>Other Operating Expenditure</b>				<b>30,268</b>
		25,050	Interest payable and similar charges				24,851
		(4,102)	Interest & Investment income				(3,510)
		14,530	Net interest on defined benefit liability (asset)	36			14,887
		(2,901)	(Surplus)/Deficit on trading undertakings & other operations				(96)
		(68)	Income, Expenditure and changes in the fair value of Investment Properties*				(5,780)
		<b>32,509</b>	<b>Financing, and Investment Income &amp; Expenditure</b>				<b>30,352</b>
		(68,928)	Income from Council Tax				(60,610)
		(37,602)	Non Ring Fenced Government Grants	31			(85,404)
		(28,100)	Capital Grants and Contributions	31			(39,019)
		0	Exceptional Item: City Deal Grant	45			(48,750)
		0	Retained Non Domestic Rates				(38,401)
		(84,510)	Contribution from Non Domestic Rate Pool				0
		<b>(219,140)</b>	<b>Taxation and Non-Specific Grant Income</b>				<b>(272,184)</b>
		<b>1,106</b>	<b>Deficit / (Surplus) on the Provision of Services</b>				<b>(67,897)</b>
			<i>Assets that may be reclassified to the deficit or (surplus) on the Provision of Services:</i>				
		(4,624)	Surplus or deficit on revaluation of non-current assets				(24,379)
		5,717	Surplus or deficit on revaluation of available for sale financial assets				(70)
			<i>Assets that will not be reclassified to the deficit or (surplus) on the Provision of Services:</i>				
		(42,270)	Return on asset plans (net of amounts included within net interest on the defined benefit liability (asset)				(6,704)
		56,250	Actuarial (gains) / losses due to change in financial assumptions				(41,481)
		0	Actuarial (gains) / losses due to change in demographic assumptions				(8,230)
		(460)	Actuarial (gains) / losses due to liability experience				(6,613)
		1,676	Total (gains) / losses from re-classification				0
		<b>16,289</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>(87,477)</b>
		<b>17,395</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>(155,374)</b>

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\* For the first time in 2013/14 this line now includes relevant income and expenditure on investment properties which were previously shown within the surplus/deficit on trading undertakings and other operations.

***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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<b>31 March 2013 £000</b>		<b>Notes</b>	<b>31 March 2014 £000</b>
986,673	Property, Plant & Equipment	9	1,015,873
47,938	Heritage Assets	40	62,589
33,387	Investment Property	12	34,001
1,355	Intangible Assets		2,510
43,610	Long Term Investments		70,711
26,085	Long Term Debtors	38	31,449
<b>1,139,048</b>	<b>Long Term Assets</b>		<b>1,217,134</b>
180,550	Short Term Investments		162,251
2,726	Inventories		347
45,449	Short Term Debtors	15	48,416
24,200	Cash & Cash Equivalents	16	69,319
1,015	Assets Held For sale	17	774
<b>253,940</b>			<b>281,106</b>
(6,679)	Short Term Borrowing		(6,646)
(73,872)	Short Term Creditors	18	(81,191)
(2,388)	Other Short Term Liabilities		(2,174)
(11,996)	Capital Grant Receipts in Advance	31	(12,788)
(3,994)	Provisions	19	(5,631)
<b>(98,929)</b>	<b>Current Liabilities</b>		<b>(108,430)</b>
(104,304)	Other Long Term Liabilities	39	(102,391)
(3,176)	Provisions	19	(3,220)
(354,822)	Long Term Borrowing		(351,524)
(350,627)	Pension liability	36	(302,678)
(7,116)	Capital Grant Receipts in Advance	31	(614)
<b>(820,045)</b>	<b>Long Term Liabilities</b>		<b>(760,427)</b>
<b>474,014</b>	<b>Net Assets</b>		<b>629,384</b>
(150,475)	Usable Reserves		(203,387)
(323,539)	Unusable Reserves	20	(425,997)
<b>(474,014)</b>			<b>(629,384)</b>

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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. These adjustments are detailed in Note 7. 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	City Deal Grant	Total Usable Reserves	Unusable Reserves	Total Authority Reserve
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2012 carried forward</b>	<b>(32,702)</b>	<b>(61,167)</b>	<b>(10,684)</b>	<b>(9,337)</b>	<b>(3,036)</b>	<b>(21,492)</b>	<b>0</b>	<b>(138,418)</b>	<b>(352,987)</b>	<b>(491,405)</b>
<b>Movement in reserves during 2012/13</b>										
Deficit or (Surplus) on the provision of services (Restated)	12,030	0	(10,924)	0	0	0	0	1,106	0	1,106
Other Comprehensive Expenditure and Income (Restated)	0	0	0	0	0	0	0	0	16,289	16,289
<b>Total Comprehensive Expenditure and Income</b>	<b>12,030</b>	<b>0</b>	<b>(10,924)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,106</b>	<b>16,289</b>	<b>17,395</b>
Adjustments between accounting basis & funding basis under regulations	(21,663)	0	10,243	(767)	1,248	(2,223)	0	(13,162)	13,162	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(9,633)</b>	<b>0</b>	<b>(681)</b>	<b>(767)</b>	<b>1,248</b>	<b>(2,223)</b>	<b>0</b>	<b>(12,056)</b>	<b>29,451</b>	<b>17,395</b>
Transfers to / from Earmarked Reserves	9,508	(12,380)	2,872	0	0	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>(125)</b>	<b>(12,380)</b>	<b>2,191</b>	<b>(767)</b>	<b>1,248</b>	<b>(2,223)</b>	<b>0</b>	<b>(12,056)</b>	<b>29,451</b>	<b>17,395</b>
<b>Balance at 31 March 2013 carried forward</b>	<b>(32,827)</b>	<b>(73,547)</b>	<b>(8,493)</b>	<b>(10,104)</b>	<b>(1,788)</b>	<b>(23,715)</b>	<b>0</b>	<b>(150,474)</b>	<b>(323,536)</b>	<b>(474,010)</b>
<b>Movement in reserves during 2013/14</b>										
Deficit or (Surplus) on the provision of services	(45,744)	0	(22,146)	0	0	0	0	(67,890)	0	(67,890)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	(87,483)	(87,483)
<b>Total Comprehensive Expenditure and Income</b>	<b>(45,744)</b>	<b>0</b>	<b>(22,146)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(67,890)</b>	<b>(87,483)</b>	<b>(155,373)</b>
Adjustments between accounting basis & funding basis under regulations	18,310	0	28,557	(3,897)	(2,050)	(7,636)	(18,306)	14,978	(14,978)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(27,434)</b>	<b>0</b>	<b>6,411</b>	<b>(3,897)</b>	<b>(2,050)</b>	<b>(7,636)</b>	<b>(18,306)</b>	<b>(52,912)</b>	<b>(102,461)</b>	<b>(155,373)</b>
Transfers to / from Earmarked Reserves	26,365	(17,435)	(8,930)	0	0	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>(1,069)</b>	<b>(17,435)</b>	<b>(2,519)</b>	<b>(3,897)</b>	<b>(2,050)</b>	<b>(7,636)</b>	<b>(18,306)</b>	<b>(52,912)</b>	<b>(102,461)</b>	<b>(155,373)</b>
<b>Balance at 31 March 2014 carried forward</b>	<b>(33,896)</b>	<b>(90,982)</b>	<b>(11,012)</b>	<b>(14,001)</b>	<b>(3,838)</b>	<b>(31,351)</b>	<b>(18,306)</b>	<b>(203,386)</b>	<b>(425,997)</b>	<b>(629,383)</b>

\* £10.5m of the General Fund Balance at 31st March 2014 (£9.2m at 31st March 2013) represents school’s balances which can only be spent by school’s under devolved budgetary arrangements.

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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.

2012/13 £'000		Notes	2013/14 £'000
1,106	Net surplus or (deficit) on the provision of services		67,897
62,076	Adjustment to surplus or deficit on the provision of services for non cash movements		72,636
(34,881)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(94,653)
<b>28,301</b>	<b>Net Cash flows from Operating activities</b>	21	<b>45,880</b>
(68,668)	Net Cash flows from Investing Activities	22	6,330
(6,688)	Net Cash flows from Financing Activities		(7,091)
<b>(47,055)</b>	<b>Net increase or decrease in cash and cash equivalents</b>	16	<b>45,119</b>
71,255	Cash and cash equivalents at the beginning of the reporting period		24,200
<b>24,200</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	16	<b>69,319</b>

The Cash Flow Statement has been restated for 2012/13 to reflect the changes in accounting policy relating to pensions (see note 6).

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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 2013/14 financial year and its financial position at 31st March 2014.

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 income 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 expenditure 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**

Non-current assets are assets that are not expected to be realised within a year.

Assets are initially measured at cost comprising:

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

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

The authority has a de minimus policy of not recognising assets with a value of less than £10,000 on its balance sheet. New assets worth less than £10,000 are fully impaired at practical completion.

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 (e.g. 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;

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 principles 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. The Revaluation Reserve only includes gains since its inception from 1 April 2007, prior gains being incorporated into the Capital Adjustment Account. Any gains or losses on Investment Properties are debited or credited to the Comprehensive Income and Expenditure Statement directly.

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#### **Charges to Revenue for Non-current Assets**

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

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

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

The Council is required to raise Housing Revenue Account (HRA) rents to fund depreciation, or revaluation and impairment losses. HRA depreciation is credited to the Major Repairs Reserve in the Movement in Reserves Statement. The Council has decided to apply the statutory transitional arrangements for HRA self-financing and depreciation on Council dwellings in excess of the notional Major Repairs Allowance is transferred from the Major Repairs Reserve to HRA balances. Apart from this transitional arrangement the Major Repairs Reserve can only be used to fund HRA capital expenditure or the repayment of HRA debt. Revaluation and impairment losses are not reversed or applied to usable reserves. The HRA makes an MRP equal to 1/30<sup>th</sup> of the HRA self-financing debt.

#### **Impairment**

The values of each category of asset 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 equipment assets (other than land, certain community assets and assets under construction) where a finite useful life has been determined. Asset lives for depreciation purposes are estimates which for most assets are determined by the Council's Royal Institute of Chartered Surveyors qualified valuers. 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.

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Depreciation is calculated on a componentised basis on assets with a net book value in excess of £3.0m. Depreciation is calculated separately for components making up more than 20% of the asset's cost where components have significantly different lives. Council dwellings are depreciated on a componentised basis. The component deminimus of 20% is not applied to Council dwellings due to the very high net book value of the dwelling stock.

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, a provision is made for the repayment of debt in accordance with statutory guidance.

### **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.

Proceeds of sales in excess of £10,000 are categorised as capital receipts and are credited to the Usable Capital Receipts Reserve.

### **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.

### **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.

#### **a) Historic Buildings**

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 Council's balance sheet at their insurance valuations. These valuations are reviewed every five years by the Council's staff.

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**b) 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.

**c) Archives**

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

**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.

**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.



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**Acquired Operations**

Merger accounting (per Financial Reporting Standard 6 Acquisitions and Mergers) has been applied to the acquisition of public health functions under the Health and Social Care Act 2012.

**Cash Equivalents**

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

**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.

The Council has provided for appeals against rateable values by non-domestic rate payers on the basis of appeals lodged and appeals likely to be lodged.

**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 or Housing Revenue Account (HRA) rent 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 the risks and rewards relating to the leased property are substantially transferred 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.

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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 the risks and rewards relating to the leased property are substantially transferred 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.

#### **c) Operating Leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rental payments where the Council is the lessee, and rental income where the Council is the lessor, 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.

#### **Retirement Benefits**

Most of the City Council's employees are members of one of three separate main pension schemes; the Teachers' Pension Scheme administered by the Department for Education, or 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 36 and 37.

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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 was 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
- Contingent rent - increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Payment towards 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

#### **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.

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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.

The Council has both types of financial asset, although available for sale assets are not material.

**Loans and receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. 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.

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.

**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.

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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.

**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 the 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.

**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.

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

The adoption of IFRS10 Consolidated Financial Statements will result in a change in accounting concerning the definition of control of entities. The existing accounting policy is for control to be recognised if the Council has the power to govern financial and operating policies so as to obtain benefits from an entity's activities. IFRS10 introduces a new test of control that requires the Council to have power over the investee, exposure or rights to variable returns and the ability to use the power to affect the amounts of the investor's return. This could affect the Council's decision on whether to prepare group accounts.

The adoption of IFRS 11 Joint Arrangements will result in a change in accounting policy. The recognition of a joint arrangement currently focuses on the legal structure, but under IFRS 11 joint arrangements will be recognised if rights and obligations are shared by the parties to the arrangement. This could affect the Council's decision on whether to prepare group accounts.

The adoption of IFRS 12 Disclosure of Interests in Other Entities will require the Council to disclose information that enables users of the financial statements to evaluate the nature of, and the risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

The adoption of IFRS 32 Financial Instruments: Presentation will result in a change in accounting policy concerning the offsetting of financial assets and financial liabilities. However, this is unlikely to affect the Council's accounts.

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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 2014 was £109.6m. 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 £12.1m as at 31 March 2014) 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:

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<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
<b>Non-Current Assets</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs & maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs & maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases & the carrying amount of the asset falls.  It is estimated that the annual depreciation charge for buildings would increase by £0.3m for every year that useful lives had to be reduced.
<b>Pensions Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates & expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.
<b>Arrears</b>	At 31st March 2014, the Authority had a balance for sundry debtors for £20.3m. A review of significant balances suggested that an impairment of doubtful debts of 13% (£2.6m) 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 £2.6m to set aside as an allowance.
<b>Non Domestic Rates</b>	With effect from 2013/14, the Council will retain 49% of the non-domestic rates that it collects. The amount of non-domestic rates collected is affected by appeals, both lodged and potential appeals that have yet to be lodged, against the rateable values of non-domestic properties. Based on previous experience, 82% of the current rating list will be subject to an appeal at some point throughout the life of the list, 52% of appeals are likely to be successful, and successful appeals will secure an average reduction in rateable value of 11%. On this basis the Council has made a provision of £11.2m in respect of backdated appeals and £2.7m in respect of projected appeals still to be lodged.	The effects on non-domestic rate income of changes in individual assumptions can be measured. However, the assumptions interact with each other.



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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 £16.0m.

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

For 2013/14, the Council has changed its accounting policy in relation to post-employment benefits in order to meet the new requirements of the revised IAS 19. In particular:

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

The effect of these changes has been 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.

The fully restated 31 March 2013 Comprehensive Income and Expenditure Statement is shown on page 17. The adjustments that have been made to the Comprehensive Income and Expenditure Statement over the version published in the 2012/13 Statement of Accounts are as follows:

	<b>Original 2012/13 Net Expenditure £000</b>	<b>Restated 2012/13 Net Expenditure £000</b>	<b>Adjustment to 2012/13 Net Expenditure £000</b>
<b>Net Cost of Services</b>	<b>174,947</b>	<b>175,727</b>	<b>780</b>
Net interest on the net defined benefit pensions liability	8,410	14,530	6,120
<b>Financing, and Investment Income &amp; Expenditure</b>	<b>26,389</b>	<b>32,509</b>	<b>6,120</b>
<b>Deficit / (Surplus) on the Provision of Services</b>	<b>(5,794)</b>	<b>1,106</b>	<b>6,900</b>
Actuarial (gains) / losses on pension assets / liabilities	22,096	15,196	(6,900)
<b>Other Comprehensive Income and Expenditure</b>	<b>23,189</b>	<b>16,289</b>	<b>(6,900)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>17,395</b>	<b>17,395</b>	<b>0</b>

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The fully restated 31 March 2013 Movement in Reserves Statement is shown on page 21. The adjustments that have been made to the Movement in Reserves Statement over the version published in the 2012/13 Statement of Accounts are as follows:

	Usable Reserves			Unusable Reserves			Total Authority Reserves		
	Original 2012/13 Net Expenditure £000	Restated 2012/13 Net Expenditure £000	Adjustment to 2012/13 Net Expenditure £000	Original 2012/13 Net Expenditure £000	Restated 2012/13 Net Expenditure £000	Adjustment to 2012/13 Net Expenditure £000	Original 2012/13 Net Expenditure £000	Restated 2012/13 Net Expenditure £000	Adjustment to 2012/13 Net Expenditure £000
Deficit / (Surplus) on the Provision of Services	(5,794)	1,106	6,900	0	0	0	(5,794)	1,106	6,900
Other Comprehensive Income and Expenditure	0	0	0	23,189	16,289	(6,900)	23,189	16,289	(6,900)
<b>Total Comprehensive Income and Expenditure</b>	<b>(5,794)</b>	<b>1,106</b>	<b>6,900</b>	<b>23,189</b>	<b>16,289</b>	<b>(6,900)</b>	<b>17,395</b>	<b>17,395</b>	<b>0</b>
Adjustments between accounting basis and funding basis under regulations	(6,262)	(13,162)	(6,900)	6,262	13,162	6,900	0	0	0
<b>Increase / Decrease in Year</b>	<b>(12,056)</b>	<b>(12,056)</b>	<b>0</b>	<b>29,451</b>	<b>29,451</b>	<b>0</b>	<b>17,395</b>	<b>17,395</b>	<b>0</b>
<b>Balance at 31 March 2013 carried forward</b>	<b>(150,474)</b>	<b>(150,474)</b>	<b>0</b>	<b>(323,536)</b>	<b>(323,536)</b>	<b>0</b>	<b>(474,010)</b>	<b>(474,010)</b>	<b>0</b>

As the deficit / (surplus) on the Provision of Services has been restated, it is also necessary to restate the Cash Flow Statement as follows:

	Original 2012/13 Net Expenditure £000	Restated 2012/13 Net Expenditure £000	Adjustment to 2012/13 Net Expenditure £000
Net surplus or (deficit) on the provision of services	(5,794)	1,106	6,900
Adjustment to surplus or deficit on the provision of services for non cash movements	55,176	62,076	6,900
<b>Net Cash flows from Operating Activities</b>	<b>28,301</b>	<b>28,301</b>	<b>0</b>
<b>Net increase or decrease in cash and cash equivalents</b>	<b>(47,055)</b>	<b>(47,055)</b>	<b>0</b>

There is no impact on the 2012/13 Balance Sheet.

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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.

2013/14	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	City Deal Grant £'000		
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>									
<b>- Analysis Adjustments involving the Capital Adjustment Account:</b>									
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>									
Charges for depreciation and impairment of non current assets	(22,005)		13,766					(8,239)	8,239
Amounts of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the CIES	(31,643)		(2,996)					(34,639)	34,639
Revenue expenditure funded from capital under statute	(450)					(5,850)		(6,300)	6,300
Other	284		26					310	(310)
<b>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>									
Sums set aside from revenue to fund capital expenditure	4,452		15,323					19,775	(19,775)
<b>Adjustments involving the Capital Grants Unapplied Account:</b>									
Capital grants and contributions unapplied credited to CIES	38,668		351			(39,019)		0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0					37,233		37,233	(37,233)
<b>Adjustments involving City Deal Grant</b>									
City Deal Grant and contributions unapplied credited to CIES	48,750						(48,750)	0	0
Application of City Deal Grant to capital financing and debt repayment transferred to the Capital Adjustment Account	0						30,444	30,444	(30,444)
<b>Adjustments involving the Capital Receipts Reserve:</b>									
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	329		4,323		(4,652)			0	0
Use of Capital Receipts Reserve to finance new capital expenditure	0				2,581			2,581	(2,581)
Other	(751)				21			(730)	730
<b>Adjustments involving the Major Repairs Reserve:</b>									
Reversal of Major Repairs Allowance credited to the HRA	0		(222)	(14,002)				(14,224)	14,224
Use of Major Repairs Reserve to finance new capital expenditure	0			10,105				10,105	(10,105)
<b>Adjustments involving the Pensions Reserve</b>									
Reversal of items relating to retirement benefits debited or credited to the CIES	(32,013)		(3,610)					(35,623)	35,623
Employer's pension contributions and direct payments to pensioners payable in the year	18,856		1,722					20,578	(20,578)
<b>Adjustments involving the Collection Fund Adjustment Account:</b>									
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(6,038)							(6,038)	6,038
<b>Other Adjustments</b>									
Adjustments between accounting basis & funding basis under regulations	18,310	0	28,557	(3,897)	(2,050)	(7,636)	(18,306)	14,978	(14,978)

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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		
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>								
<b>- Analysis Adjustments involving the Capital Adjustment Account:</b>								
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Charges for depreciation and impairment of non current assets	(32,703)		5,360				(27,343)	27,343
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
Revenue expenditure funded from capital under statute	(1,313)		(31)			(1,669)	(3,013)	3,013
Other	(226)						(226)	226
<b>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Sums set aside from revenue to fund capital expenditure	12,365		2,954				15,319	(15,319)
<b>Adjustments involving the Capital Grants Unapplied Account:</b>								
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)
<b>Adjustments involving the Capital Receipts Reserve:</b>								
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	2,317		2,275		(5,061)		(469)	469
Use of Capital Receipts Reserve to finance new capital expenditure					5,414		5,414	(5,414)
Other	(722)				895		173	(173)
<b>Adjustments involving the Major Repairs Reserve:</b>								
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)
<b>Adjustments involving the Pensions Reserve</b>								
Reversal of items relating to retirement benefits debited or credited to the CIES	(29,857)		(3,153)				(33,010)	33,010
Employer's pension contributions and direct payments to pensioners payable in the year	17,947		1,480				19,427	(19,427)
<b>Adjustments involving the Collection Fund Adjustment Account:</b>								
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	331						331	(331)
<b>Other Adjustments</b>								
	(634)		242				(392)	392
Adjustments between accounting basis & funding basis under regulations	(21,663)	0	10,243	(767)	1,248	(2,223)	(13,162)	13,162

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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 2013/14.

	Balance at 1 April 2012 £000	Transfers (to) / from 2012/13 £000	Balance at 31 March 2013 £000	Transfers (to) / from 2013/14 £000	Balance at 31 March 2014 £000
<b>General Fund:</b>					
Earmarked for Capital Purposes	(10,516)	(4,251)	(14,766)	(7,337)	(22,103)
Medium Term Resource Strategy Reserve	(10,620)	(5,248)	(15,868)	(1,621)	(17,489)
Private Finance Initiative Reserve	(19,498)	1,584	(17,914)	4,088	(13,826)
Portfolio Reserves	0	0	0	(5,492)	(5,492)
Other	(11,893)	(1,594)	(13,487)	(16,002)	(29,489)
<b>Total</b>	<b>(52,527)</b>	<b>(9,508)</b>	<b>(62,035)</b>	<b>(26,364)</b>	<b>(88,399)</b>
<b>HRA:</b>					
HRA Capital Reserve	(8,640)	(2,872)	(11,512)	8,930	(2,582)
	<b>(61,167)</b>	<b>(12,380)</b>	<b>(73,548)</b>	<b>(17,434)</b>	<b>(90,981)</b>

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

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

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

Portfolio Reserves

These reserves provide a mechanism to allow underspendings by portfolios in 2013/14 to be carried forward into 2014/15.

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 2012/13**

	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant and Equipment £000</b>	<b>Infrastructure Assets £000</b>	<b>Community Assets £000</b>	<b>Other Land and Buildings – Surplus £000</b>	<b>Assets Under Construction £000</b>	<b>Total £000</b>
<b>Cost or Valuation</b>								
At 1st April 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)
Revaluation Gains		6,348	119	7	16			6,490
Revaluation Losses	(12,472)	(10,845)	(572)	(64)				(23,953)
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
<b>Depreciation</b>								
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)
<b>Impairment</b>								
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)
<b>Net Book Value</b>								
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	986,673

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**Movements in 2013/14**

	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant and Equipment £000</b>	<b>Infrastructure Assets £000</b>	<b>Community Assets £000</b>	<b>Other Land and Buildings – Surplus £000</b>	<b>Assets Under Construction £000</b>	<b>Total £000</b>
<b>Cost or Valuation</b>								
At 1st April 2013	704,395	512,966	55,871	138,650	2,514	2,015	42,962	1,459,373
Additions							78,310	78,310
Disposals	(4,867)	(40,436)	(165)	(711)				(46,179)
Revaluation Gains		7,990	2,507	381	156	951		11,985
Revaluation Losses	(12,844)	(14,028)	(7,773)	(2,005)	(34)			(36,684)
Reclassifications	17,776	11,652	1,046	4,646	75	(524)	(37,057)	(2,386)
At 31st March 2014	704,460	478,144	51,486	140,962	2,711	2,441	84,216	1,464,419
<b>Depreciation</b>								
At 1st April 2013	0	(14,992)	(22,289)	(26,273)	0	0	0	(63,554)
Charge in Year	(12,930)	(8,735)	(5,591)	(3,609)				(30,865)
Disposal	86	1,089		688				1,863
Revaluations	12,844	11,850	7,750	2,005				34,449
Reclassifications								
At 31st March 2014	0	(10,788)	(20,130)	(27,189)	0	0	0	(58,107)
<b>Impairment</b>								
At 1st April 2013	(267,287)	(136,446)	(232)	(4,161)	(76)	(942)	0	(409,144)
Charge in Year	13,746	(4,679)	(162)	(143)	(41)	(16)		8,705
Disposal	1,847	7,964	165	23				9,999
Reclassifications								
At 31st March 2014	(251,694)	(133,161)	(229)	(4,281)	(117)	(958)	0	(390,440)
<b>Net Book Value</b>								
At 1st April 2013	437,108	361,528	33,350	108,216	2,438	1,073	42,962	986,675
At 31st March 2014	452,766	334,195	31,127	109,492	2,594	1,483	84,216	1,015,872

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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
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 2014.

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 2013/14 £13.7m was reversed against previous impairment losses in the Surplus or Deficit on the Provision of Services.

At 31 March 2014 five schools with a net book value of £59m had applied to become Academies in 2014/15.



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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
2013/14	453,177	165,790	5,631	8,826	168	1,176	13,230	774	-	648,772
2012/13	-	92,251	1,501	5,414	37	270	9,714	-	-	109,187
2011/12	-	21,369	5,259	15,365	1,074	37	5,105	-	-	48,209
2010/11	-	49,755	4,613	14,492	1,315	-	5,950	-	-	76,125
2009/10	-	1,130	5,064	60,299	-	-	3	-	-	66,496
Valued at Historic Cost	-	4,191	9,059	5,096	-	-	-	-	84,216	102,562
	<b>453,177</b>	<b>334,486</b>	<b>31,127</b>	<b>109,492</b>	<b>2,594</b>	<b>1,483</b>	<b>34,002</b>	<b>774</b>	<b>84,216</b>	<b>1,051,351</b>

**Depreciation**

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

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

- A) **Council Dwellings** - 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. SIGNIFICANT COMMITMENTS FOR FUTURE CAPITAL EXPENDITURE**

**(a) Future Approved Capital Programme**

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

<b>Capital Programme</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>Later £000</b>
Culture, Leisure & Sport	4,343	774	0	0	0	0
Children & Education	9,422	0	0	0	0	0
Environment & Community Safety	13,192	12,340	22,340	14,000	200	0
Health & Social Care (Adults Services) Resources	3,774	2,868	165	0	0	0
Planning, Regeneration & Economic Development	5,087	2,066	250	0	0	0
Commercial Port	23,214	22,545	29,962	50,293	2,810	55,164
Traffic & Transportation	3,956	0	0	0	0	0
Housing Portfolio (GF)	13,991	12,225	2,689	2,449	3,435	36,331
Housing Portfolio (HIP)	2,783	2,253	2,309	2,367	2,426	2,487
<b>Total Capital Programme</b>	<b>44,928</b>	<b>29,217</b>	<b>27,122</b>	<b>30,334</b>	<b>30,329</b>	<b>41,097</b>
	<b>124,690</b>	<b>84,288</b>	<b>84,837</b>	<b>99,443</b>	<b>39,200</b>	<b>135,079</b>

**(b) Contractual Commitments**

The Authority was legally committed to the following significant capital contracts at 31st March 2014:

<b>Capital Contracts</b>	<b>£000</b>
Westminster and Wingfield Street external works & improvements	1,110

**12. INVESTMENT PROPERTIES**

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

<b>Investment Properties</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Rental Income from Investment Property	3,942	5,165

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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.

<b>Investment Properties</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Balance at start of year	33,369	33,388
Disposals	(170)	(2)
Net gains / losses from fair value adjustments	68	616
Reclassifications	121	0
<b>Balance at end of year</b>	<b>33,388</b>	<b>34,001</b>

### **13. FINANCIAL INSTRUMENTS**

#### **a) Financial Instrument Balances**

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

<b>Borrowings and Investments</b>	<b>Long-Term</b>		<b>Current</b>	
	<b>31st March 2013 £000</b>	<b>31st March 2014 £000</b>	<b>31st March 2013 £000</b>	<b>31st March 2014 £000</b>
Financial liabilities at amortised cost	(444,818)	(440,728)	(54,923)	(60,141)
Loans & receivables	65,152	90,873	232,655	240,464
Equity interest in MMD (Shipping Services) Ltd	4,543	4,612		

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 £6.8m at 31st March 2014 (£5.4m at 31st March 2013). 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. £5.8m 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.

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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:

<b>2012/13</b>	<b>Financial Liabilities Measured at Amortised Cost £000</b>	<b>Financial Assets Loans &amp; Receivables £000</b>	<b>Total £000</b>
Interest expense	25,050	-	
Impairment Losses	-	25	
Interest Payable & Similar Charges	25,050	25	25,075
Interest & Investment Income	-	(4,095)	(4,095)
<b>Net gain / (loss) for the year</b>	<b>25,050</b>	<b>(4,070)</b>	<b>20,980</b>

<b>2013/14</b>	<b>Financial Liabilities Measured at Amortised Cost £000</b>	<b>Financial Assets Loans &amp; Receivables £000</b>	<b>Total £000</b>
Interest expense	24,808	-	
Impairment Losses	-	448	
Interest Payable & Similar Charges	24,808	448	25,256
Interest & Investment Income	-	(3,503)	(3,503)
<b>Net gain / (loss) for the year</b>	<b>24,808</b>	<b>(3,055)</b>	<b>21,753</b>

**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

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

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	31st March 2013		31st March 2014	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial Liabilities	(499,741)	(673,826)	(500,869)	(615,095)

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 2013		31st March 2014	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and Receivables	297,807	321,835	331,337	344,806

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.

**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.

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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 2014 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 2014 (Net of bad debt provision)	Historical Experience of Default	Historical Experience Adjusted for Market Conditions at 31st March 2014	Estimated Maximum Exposure to Default & Uncollectability at 31st March 2014	Estimated Maximum Exposure at 31st March 2013
	£000	%	%	£000	£000
	A	B	C	(A x C)	
Deposits with commercial companies	3,062	0.0	5.0	153	155
Customers	16,332	22.5	22.5	3,675	4,391
Housing rents	4,739	13.2	13.2	626	138
Housing mortgages	6,380	0.0	11.0	701	747
Other long term debtors	15,333	0.0	0.0	0	0
				<b>5,155</b>	<b>5,431</b>

The credit agencies have down rated many financial institutions over the last few years. A concern expressed by the credit rating agencies is the Banking Act 2009. The Banking Act 2009 gives the Authorities greater flexibility to resolve financial institutions problems, which for example could lead to different treatment of wholesale senior unsecured debt, which would include the Council's investments, compared to other liabilities. Despite this, at 31st March 2014 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 current criteria.

The Authority does not generally allow credit for customers. However, there is a balance of £7.9m that is past its due date for payment. This can be analysed by age as follows:

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	<b>£000</b>
Less than three months	5,085
Three to six months	447
Six months to one year	412
More than one year	1,983
	<b>7,927</b>

**Liquidity Risk**

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

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

The remainder of the Authority's borrowing consists of fixed rate PWLB debt. These loans have a weighted average remaining term of 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.

Borrowing is as follows:

	<b>31st March 2013</b> <b>£000</b>	<b>31st March 2014</b> <b>£000</b>
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	341,417	338,119
	<b>358,173</b>	<b>354,875</b>

**Market Risk**

**Interest Rate Risk**

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

- Borrowings at variable rates – no impact apart from the LOBO loan that is subject to an interest rate review by the lender in March 2016
- Borrowings at fixed rates – the fair value of the borrowings will fall

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- 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.

According to this assessment strategy, at 31st March 2014, 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 £0.8m. The impact of a 0.5% fall in interest rates would have been a reduction in investment income of £0.8m.

#### **14. CONSTRUCTION CONTRACTS**

At 31 March 2014 the Authority had four construction contracts with Academy Schools. The nature of work included landscape work, refurbishment, structural repairs and the construction of a new classroom. The value of work completed at 31 March 2014 has been established using a stage of completion methodology based on surveyor's certificates obtained at year end. The total amount due from the four parties at 31 March 2014 is £0.6m.



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**15. SHORT-TERM DEBTORS**

2013 £000	Outstanding Debtors at 31st March (Net of Bad Debt Provision)	2014	
		£000	£000
17,634	Central Government Bodies		15,993
10,267	Council Tax	11,467	
(5,998)	Less Impairment Allowance	(6,959)	
4,269			4,508
4,242	Housing Rents	7,905	
(3,196)	Less Impairment Allowance	(3,166)	
1,046			4,739
8,058	Housing Benefits	7,772	
(4,064)	Less Impairment Allowance	(4,228)	
3,994			3,544
21,292	Other	22,305	
(2,786)	Less Impairment Allowance	(2,673)	
18,506			19,632
<b>45,449</b>			<b>48,416</b>

**16. CASH AND CASH EQUIVALENTS**

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

31 March 2013 £'000		31 March 2014 £'000
1,068	Cash held by the Authority	896
(4,646)	Bank current accounts	(1,069)
27,778	Investments in money market funds	69,492
<u>24,200</u>		<u>69,319</u>

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The Council's cash and cash equivalents mainly consist of instant access investments in money market funds.

**17. ASSETS HELD FOR SALE**

	2012/13 £000	2013/14 £000
<b>Balance Outstanding at start of year</b>	<b>8,092</b>	<b>1,015</b>
Assets newly classified as Held for Sale - Property, Plant and Equipment	765	524
Impairment losses	(640)	(15)
Assets declassified as Held for Sale:		
- Property, Plant and Equipment	(200)	0
- Other Assets / Liabilities in Disposal groups	(120)	0
Assets sold	(6,882)	(750)
<b>Balance outstanding at year-end</b>	<b>1,015</b>	<b>774</b>

**18. SHORT-TERM CREDITORS**

2013 £000	Outstanding Creditors at 31st March	2014 £000
(11,694)	Central Government Bodies	(12,473)
(8,394)	NHS Bodies	(4,957)
(5,235)	Housing Rents	(6,434)
(48,549)	Other	(57,327)
<b>(73,872)</b>		<b>(81,191)</b>

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**19. PROVISIONS**

	<b>Short Term £000</b>	<b>Long Term £000</b>	<b>Total £000</b>
<b>Balance at 1 April 2012</b>	<b>(3,957)</b>	(3,829)	(7,786)
Additional provisions made in 2012/13	(1,258)	(146)	(1,404)
Amounts used in 2012/13	909		909
Unused amounts reversed in 2012/13	312	901	1,213
Unwinding of Discounting in 2012/13		(102)	(102)
<b>Balance at 31 March 2013</b>	<b>(3,994)</b>	<b>(3,176)</b>	<b>(7,170)</b>
Additional provisions made in 2013/14	(4,665)	(2,856)	(7,521)
Amounts used in 2013/14	2,881	2,689	5,570
Unused amounts reversed in 2013/14	147	123	270
<b>Balance at 31 March 2014</b>	<b>(5,631)</b>	<b>(3,220)</b>	<b>(8,851)</b>

Provision for Appeals by Non Domestic Rate Payers - £6.8m

With effect from 2013/14, the Council will retain 49% of the non-domestic rates that it collects. The amount of non-domestic rates collected is affected by appeals, both lodged and potential appeals that have yet to be lodged, against the rateable values of non-domestic properties. The Valuation Office Agency (VOA) revalues non-domestic properties for rating purposes every 5 years, but the 2015 revaluation has been deferred to 2017. Non-domestic rate payers can appeal against the VOA's valuations throughout the life of the list. The current rating list was effective from 1<sup>st</sup> April 2010 and non-domestic rate payers can appeal against the current list until 31<sup>st</sup> March 2018.

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**20. UNUSABLE RESERVES**

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
(70,596)	Revaluation Reserve	(92,399)
(2,468)	Available for Sale Financial Instruments Reserve	(2,538)
(591,500)	Capital Adjustment Account	(630,549)
2,733	Financial Instruments Adjustment Account	2,533
350,627	Pensions Reserve	302,677
23	Collection Fund Adjustment Account	6,087
5,194	Accumulating Compensated Absences Adjustment Account	4,987
(17,551)	Deferred Capital Receipts	(16,795)
<b>(323,538)</b>	<b>Total Unusable Reserves</b>	<b>(425,997)</b>

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.

<b>2012/13 £000</b>		<b>2013/14</b>	
		<b>£000</b>	<b>£000</b>
<b>(67,548)</b>	<b>Balance at 1 April</b>		<b>(70,596)</b>
(4,574)	Revaluations		(24,379)
1,302	Difference between fair value depreciation and historical cost depreciation	1,020	
224	Accumulated gains on assets sold or scrapped	1,556	
1,526	Amount written off to the Capital Adjustment Account		2,576
<b>(70,596)</b>	<b>Balance at 31 March</b>		<b>(92,399)</b>

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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

2012/13 £000		2013/14 £000
(8,185)	<b>Balance at 1st April</b>	(2,468)
5,717	Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	(70)
<b>(2,468)</b>	<b>Balance at 31st March</b>	<b>(2,538)</b>

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.

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2012/13		Capital Adjustment Account	2013/14	
£000	£000		£000	£000
	(588,973)	<b>Balance at 1 April</b>		<b>(591,500)</b>
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
30,068		- Charges for depreciation and impairment of non-current assets	31,014	
11,169		- Revaluation losses on Property, Plant and Equipment	(8,551)	
285		- Amortisation of intangible assets	311	
3,013		- Revenue expenditure funded from capital under statute	6,300	
15,709		- (Gain) / loss on disposal taken to the Comprehensive Income and Expenditure Statement	33,511	
504		Loan Repayments	801	
	60,748			63,386
	(1,302)	Adjusting amounts written out of Revaluation Reserve		(1,023)
	(529,527)	Net written out amount of the cost of non-current assets consumed in the year		(529,137)
		Capital financing applied in the year:		
(5,414)		- Use of Capital Receipts Reserve to finance new capital expenditure	(2,581)	
(12,941)		- Use of Major Repairs Reserve to finance new capital expenditure	(10,105)	
(27,546)		- Application of grants and contributions to finance new capital expenditure	(37,232)	
		- Application of City Deal Grant to fund new capital expenditure	(25,521)	
(10,850)		- Statutory provision for the financing of capital investment charges against the General Fund and HRA balances	(5,295)	
(694)		- Capital receipts set aside for the repayment of debt	(658)	
		- City Deal Grant Set Aside to Repay Debt	(4,923)	
(640)		- Repayment of transferred debt	(615)	
(3,829)		- Capital expenditure charged against the General Fund and HRA balances	(13,866)	
	(61,914)			(100,796)
	(59)	Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement		(616)
	<b>(591,500)</b>	<b>Balance at 31 March</b>		<b>(630,549)</b>

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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.

<b>2012/13</b>	<b>2013/14</b>
<b>£000</b>	<b>£000</b>
<b>321,848 Balance at 1 April</b>	<b>350,627</b>
(19,200) Return on plan assets	(6,704)
48,196 Actuarial (gains) and losses on pensions assets and liabilities	(56,291)
19,210 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	35,623
(19,427) Employer's pensions contributions and direct payments to pensioners payable in the year	(20,578)
<b>350,627</b>	<b>302,676</b>

Collection Fund Adjustment Account

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

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2012/13 £000		2013/14 £000
<b>355</b>	<b>Balance at 1 April</b>	24
(331)	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	6,063
<b>24</b>		<b>6,087</b>

Accumulating Compensated Absences Adjustment Account

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

2012/13 £000		2013/14 £000	£000
<b>5,174</b>	<b>Balance at 1 April</b>		<b>5,194</b>
(5,174)	Settlement or cancellation of the accrual made at the end of the preceding year	(5,194)	
5,194	Amounts accrued at the end of the current year	4,987	
20	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(207)
<b>5,194</b>	<b>Balance at 31 March</b>		<b>4,987</b>

Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital



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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.

2012/13 £000	2013/14 £000
(18,644) <b>Balance at 1 April</b>	<b>(17,552)</b>
Transfer of sale proceeds credited as part of the gain / loss 0 on disposal to the Comprehensive Income and Expenditure Statement	(451)
468 Transfer to Capital Receipts Reserve upon receipt of cash	521
Transfer to Comprehensive Income and Expenditure 624 Statement to mitigate the effect of leases being reclassified as finance leases under IFRS	687
<b><u>(17,552)</u></b>	<b><u>(16,795)</u></b>

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

The cash flows for operating activities include the following items:

2012/13 £000s		2013/14 £000s
3,453	Interest received	3,455
(25,083)	Interest paid	(24,885)

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

2012/13 £000s		2013/14 £000s
(50,662)	Purchases of property, plant and equipment, investment property and intangible assets	(72,220)
(230,540)	Purchase of short-term and long-term investments	(218,546)
(1,369)	Other payments for investing activities	(7,225)
6,450	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6,704
177,962	Proceeds from short-term and long-term investments	209,845
29,491	Other receipts from investing activities	87,772
<b>(68,668)</b>	<b>Net cash flows from investing activities</b>	<b>6,330</b>

**23. 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:

<b>Portfolio Analysis</b>	<b>Gross Expenditure 2013/14 £000</b>	<b>Income 2013/14 £000</b>	<b>Net Expenditure 2013/14 £000</b>
Culture, Leisure & Sport	14,593	(2,491)	12,103
Education & Children's Services	177,691	(136,960)	40,731
Environment & Community Safety	19,937	(2,135)	17,801
Health & Social Care	96,062	(47,497)	48,565
Housing	4,825	(2,087)	2,738
Leader	267	(17)	250
Resources	138,476	(112,058)	26,418
Planning Regeneration Economic Development	24,156	(24,992)	(839)
Traffic & Transportation	26,776	(20,623)	6,152
Governance & Audit Committee	759	(587)	172
Licensing Committee	598	(735)	(137)
<b>Net Cost of Services</b>	<b>504,139</b>	<b>(350,182)</b>	<b>153,959</b>

<b>Portfolio Analysis</b>	<b>Gross Expenditure 2012/13 £000</b>	<b>Income 2012/13 £000</b>	<b>Net Expenditure 2012/13 £000</b>
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)
<b>Net Cost of Services</b>	<b>511,088</b>	<b>( 335,129)</b>	<b>175,959</b>

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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.

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Net Cost of Services	175,959	153,959
Amounts not reported to management in Service Analysis	( 15,131)	(27,949)
Add amounts not reported to management under Other Operating Expenditure and Financing & Investment Income & Expenditure	16,685	18,193
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement Net Cost of Services	( 1,786)	(535)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement under the Code</b>	<b>175,727</b>	<b>143,668</b>

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<b><u>Reconciliation to Subjective Analysis (Single Entity) 2013/14</u></b>	<b>Service Portfolio Analysis</b>	<b>Services not in Portfolio Analysis</b>	<b>Not reported to management in year</b>	<b>Not included in CIES</b>	<b>Net Cost of Services</b>	<b>Corporate Amounts</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	(82,391)	(79,382)	0	5,942	<b>(155,831)</b>	(356)	<b>(156,187)</b>
Surplus or deficit on associates and joint ventures	0	0	0	0	<b>0</b>	(150)	<b>(150)</b>
Interest and investment income	0	0	0	0	<b>0</b>	(3,510)	<b>(3,510)</b>
Income from Council Tax	0	0	0	0	<b>0</b>	(60,610)	<b>(60,610)</b>
Government grants and contributions	(267,789)	0	(1,225)	11,521	<b>(257,493)</b>	(211,574)	<b>(469,067)</b>
Changes in the fair value of Investment Properties	0	0	0	0	<b>0</b>	(5,780)	<b>(5,780)</b>
<b>Total Income</b>	<b>(350,180)</b>	<b>(79,382)</b>	<b>(1,225)</b>	<b>17,463</b>	<b>(413,324)</b>	<b>(281,980)</b>	<b>(695,304)</b>
Employee expenses	196,563	13,958	18,177	(17,213)	<b>211,485</b>	14,887	<b>226,372</b>
Other service expenses	257,180	36,905	1,241	(1,000)	<b>294,737</b>	1,18	<b>294,855</b>
Support Service Recharges	27,673	0	0	0	<b>27,673</b>	0	<b>27,673</b>
Depreciation, amortisation and impairment	22,723	159	0	214	<b>23,096</b>	(214)	<b>22,882</b>
Interest Payments	0	0	0	0	<b>0</b>	24,851	<b>24,851</b>
Precepts and Levies	0	0	0	0	<b>0</b>	36	<b>36</b>
Payments to Housing Capital Receipts Pool	0	0	0	0	<b>0</b>	751	<b>751</b>
Loss on disposal of Non-Current Assets	0	0	0	0	<b>0</b>	29,987	<b>29,987</b>
<b>Total Operating Expenses</b>	<b>504,139</b>	<b>51,022</b>	<b>19,418</b>	<b>(17,999)</b>	<b>556,991</b>	<b>70,416</b>	<b>627,407</b>
<b>Surplus or deficit on the provision of services</b>	<b>153,959</b>	<b>(28,360)</b>	<b>18,193</b>	<b>(536)</b>	<b>143,667</b>	<b>(204,889)</b>	<b>(67,897)</b>

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<b><u>Reconciliation to Subjective Analysis (Single Entity) 2012/13</u></b>	<b>Service Portfolio Analysis</b>	<b>Services not in Portfolio Analysis</b>	<b>Not reported to management in year</b>	<b>Not included in CIES</b>	<b>Net Cost of Services</b>	<b>Corporate Amounts</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	( 64,467)	( 72,456)	0	5,299	<b>( 131,624)</b>	( 6,137)	<b>( 137,761)</b>
Surplus or deficit on associates and joint ventures	0	0	0	0	<b>0</b>	( 150)	<b>( 150)</b>
Interest and investment income	0	0	0	0	<b>0</b>	( 4,102)	<b>( 4,102)</b>
Income from Council Tax	0	0	0	0	<b>0</b>	( 68,928)	<b>( 68,928)</b>
Government grants and contributions	( 270,662)	0	( 412)	11,521	<b>( 259,553)</b>	( 150,212)	<b>( 409,765)</b>
Changes in the fair value of Investment Properties	0	0	0	0	<b>0</b>	( 68)	<b>( 68)</b>
<b>Total Income</b>	<b>( 335,129)</b>	<b>( 72,456)</b>	<b>( 412)</b>	<b>16,820</b>	<b>( 391,177)</b>	<b>( 229,597)</b>	<b>( 620,774)</b>
Employee expenses	201,319*	13,347	16,685	( 15,941)	<b>215,410</b>	14,530	<b>229,940</b>
Other service expenses	248,561	35,412	412	( 1,996)	<b>282,389</b>	2,483	<b>284,872</b>
Support Service Recharges	28,220	0	0	0	<b>28,220</b>	0	<b>28,220</b>
Depreciation, amortisation and impairment	32,988	8,566	0	( 669)	<b>40,885</b>	669	<b>41,554</b>
Interest Payments	0	0	0	0	<b>0</b>	25,050	<b>25,050</b>
Precepts and Levies	0	0	0	0	<b>0</b>	71	<b>71</b>
Payments to Housing Capital Receipts Pool	0	0	0	0	<b>0</b>	722	<b>722</b>
Loss on disposal of Non-Current Assets	0	0	0	0	<b>0</b>	11,451	<b>11,451</b>
<b>Total Operating Expenses</b>	<b>511,088</b>	<b>57,325</b>	<b>17,097</b>	<b>( 18,606)</b>	<b>566,904</b>	<b>54,976</b>	<b>621,880</b>
<b>Surplus or deficit on provision of services</b>	<b>175,959</b>	<b>(15,131)</b>	<b>16,685</b>	<b>(1,786)</b>	<b>175,727</b>	<b>(174,621)</b>	<b>1,106</b>

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

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.

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**24. ACQUIRED AND DISCONTINUED OPERATIONS**

Under the terms of the Health and Social Care Act 2012, public health responsibilities have been passed to local authorities with effect from 1st April 2013. The responsibilities transferred to Portsmouth City Council as a result of this act include tackling the causes of ill-health, reducing health inequalities and promoting and protecting health.

**25. 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 the Hampshire Police and Fire Authorities and National Non Domestic Rates on behalf of the Government and Hampshire Fire and Rescue Authority.

**26. 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), now Portsmouth CCG (effective 1 April 2013). 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 June 2013 and a new model Section 75 agreement is in place which was effective from 1 July 2013.

	<b>2012/13 £'000</b>	<b>2013/14 £'000</b>
Gross Income	13,143	3,054
Expenditure	13,112	3,080
<b>Deficit</b>	<b>31</b>	<b>26</b>
Council's contribution	1,589	293

**(b) Integrated Commissioning Unit**

The Council (host partner) has entered into a pooled budget agreement with Portsmouth CCG (formerly Portsmouth City Teaching PCT) for the Commissioning of a range of health and social care services for vulnerable people. The Council and the CCG have an agreement in place for funding these services that ran for three years from 1 April 2010. The Integrated Commissioning Unit's Section 75 agreement was renewed in 2013/14. Gross income and expenditure amounted to £0.5m (£0.7m in 2012/13) with Portsmouth City Council contributing £0.3m (£0.2m in 2012/13).

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**(c) Continuing Health Care (CHC)**

Since 1 October 2012, the City Council (host partner) has entered into a pooled budget arrangement with Portsmouth CCG (formerly Portsmouth City Teaching PCT) for the commissioning of Continuing Health Care (CHC) services. The agreement has been renewed for 2014/15.

	<b>2012/13</b> <b>£'000</b>	<b>2013/14</b> <b>£'000</b>
Gross Income	22,794	45,269
Expenditure	22,665	44,407
<b>Surplus</b>	*(129)	*(862)
Council's contribution	16,337	32,577

\* - This surplus has been carried forward into 2014/15 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 CCG. The £0.9m surplus relates solely to the CCG and not the Council.

**27. MEMBERS ALLOWANCES**

The total amount of members' allowances paid in 2013/14 was £0.6m (£0.6m in 2012/13). Detailed information on members' allowances is available from the Head of Finance and Section 151 Officer, Civic Offices, Guildhall Square, Portsmouth, PO1 2AR.

**28. 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.



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2012/13 Number of employees		2013/14 Number of employees
88	£50,000 to £54,999	74
66	£55,000 to £59,999	60
32	£60,000 to £64,999	44
18	£65,000 to £69,999	12
11	£70,000 to £74,999	12
7	£75,000 to £79,999	9
6	£80,000 to £84,999	6
9	£85,000 to £89,999	6
1	£90,000 to £94,999	2
0	£95,000 to £99,999	0
1	£100,000 to £104,999	0
5	£105,000 to £109,999	5
0	£110,000 to £114,999	0
1	£115,000 to £119,999	0
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
<b>246</b>		<b>231</b>

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**Senior Officers Emoluments in 2013/14**

The following table sets out the remuneration disclosures for Senior Officers whose salary in 2013/14 is less than £150,000, but equal to or more than £50,000:

<b>Post Title</b>	<b>Salary &amp; Allowances £</b>	<b>Total Remuneration Excluding Pension Contributions £</b>	<b>Pension Contributions £</b>	<b>Total Remuneration including Pension Contributions £</b>
Chief Executive	148,885	148,885	19,504	168,389
Director of Children & Adult Services	109,430	109,430	14,335	123,765
Section 151 Officer & Head of Financial Services	88,437	88,437	11,585	100,022
Director of Regeneration	109,430	109,430	14,335	123,765
Director of Support Services	109,430	109,430	14,335	123,765
Port Manager	109,430	109,430	14,335	123,765
Director of Public Health <b>(Note 1)</b>	27,358	27,358	3,830	31,188
Solent Local Enterprise Partnership Chief Executive	107,223	107,223	14,046	121,269

**Note 1:** The Director of Public Health started on 1st January 2014. Their annual salary was £109,430.

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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:

<b>Post Title</b>	<b>Salary &amp; Allowances £</b>	<b>Total Remuneration Excluding Pension Contributions £</b>	<b>Pension Contributions £</b>	<b>Total Remuneration including Pension Contributions £</b>
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 22<sup>nd</sup> 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 22<sup>nd</sup> 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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**29. EXTERNAL AUDIT COSTS**

This note discloses the fees paid to Ernst and Young for work carried out in 2013/14.

2012/13 £000		2013/14 £000
198	External Audit Services	227
27	Certification of grant claims & returns	4
0	Statutory inspection	0
2	Other	4
227	Total paid to Ernst and Young	235
(21)	Less Rebate from Audit Commission	0
<b>206</b>	<b>Total</b>	<b>235</b>

No other non-statutory services were provided.

**30. 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 2013/14 are as follows:**

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	<b>2013/14</b>		
	<b>Central Exp £000s</b>	<b>Schools Budget £000s</b>	<b>Total £000s</b>
Final DSG for 2013/14 before academy recoupment	4,647	125,489	130,136
Academy figure recouped for 2013/14	0	(11,636)	(11,636)
Total DSG after Academy recoupment for 2013/14	4,647	113,853	118,500
Brought forward from 2012/13	2,446		2,446
Agreed initial budgeted distribution in 2013/14	7,093	113,853	120,946
In year adjustments	(187)	187	0
Final budget distribution for 2013/14	6,906	114,040	120,946
Less actual central expenditure	(4,793)		(4,793)
Less Actual ISB deployed to schools		(113,839)	(113,839)
Carry forward to 2014/15	2,113	201	2,314

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**31. GRANT INCOME**

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	(17,969)	(64,050)
Contribution from NNDR Pool	(84,510)	0
Retained Non Domestic Rates	0	(38,401)
PFI Grant	(11,521)	(11,521)
Other Grants	(8,111)	(9,834)
Income from Council Tax	(68,928)	(60,610)
Capital Grants and Contributions	(28,100)	(39,019)
City Deal Grant	0	(48,750)
<b>Total</b>	<b>(219,139)</b>	<b>(272,185)</b>
<b>Credited to Services</b>		
Council Tax Benefit Subsidy	(14,383)	0
Rent Allowance Subsidy	(64,951)	(65,117)
HRA Rent Rebates Subsidy	(40,150)	(41,100)
Public Health Grant	0	(15,737)
Dedicated Schools Grant	(122,574)	(118,631)
Other Grants	(16,861)	(2,973)
<b>Total</b>	<b>(258,919)</b>	<b>(243,558)</b>

Due to legislative changes to the calculation of the RSG & retention of NNDR the first three Non-Specific Grant incomes listed above should be considered in aggregate if comparing with the prior year 2012/13.

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

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	2012/13 £000	2013/14 £000
<b>Capital Grants Receipts in Advance</b>		
Other Grants & Contributions	(2,373)	(2,337)
Solent Local Enterprise Partnership	(16,739)	(11,064)
<b>Total</b>	<b>(19,112)</b>	<b>(13,401)</b>

	2012/13 £000	2013/14 £000
<b>Revenue Grants Receipts in Advance</b>	<b>( 5,263)</b>	<b>(4,026)</b>

### **32. 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.

#### Members

Members of the City Council have direct control over the Council's financial and operating policies. The Council paid £1.6m to organisations where members had been appointed by the Council to hold positions on the governing body.

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

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three investors are Fareham, Havant and Gosport Borough Councils. The City Council received a dividend of £150,000 in 2013/14 (£150,000 in 2012/13).

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 44.

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 £0.5m 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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**33. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

<b>2012/13</b>		<b>2013/14</b>
<b>£000's</b>		<b>£000's</b>
426,721	<b>Opening capital financing requirement</b>	420,208
52,348	Long Term Assets	85,693
3,013	Revenue expenditure funded from capital under statute	6,300
<b>55,360</b>	<b>Capital Investment</b>	<b>91,993</b>
482,081		512,201
	<b>Sources of finance</b>	
(5,414)	Capital receipts	(2,581)
	City Deal Grant	(25,521)
(27,546)	Other Grants & contributions	(37,233)
	Sums set aside from revenue:	
(3,788)	- Direct revenue contributions	(13,865)
(12,941)	- Use of Major Repairs Reserve	(10,105)
(11,490)	- Minimum Revenue Provision	(5,910)
	City Deal Grant set aside to repay debt	(4,923)
(694)	Capital receipts set aside to repay debt	(658)
<b>(61,873)</b>		<b>(100,796)</b>
<b>420,208</b>	<b>Closing capital financing requirement</b>	<b>411,405</b>
The capital financing requirement is met by the following items in the balance sheet:		
1,073,893	Fixed assets including equity investments	1,120,540
6,769	Housing General Fund mortgages	6,380
(70,596)	Revaluation Reserve	(92,399)
(591,500)	Capital Adjustment Account	(624,576)
1,642	Other	1,460
<b>420,208</b>		<b>411,405</b>

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The capital financing requirement decreased by £8.8m in 2013/14 for the following reasons:

<b>2012/13</b> <b>£000's</b>		<b>2013/14</b> <b>£000's</b>
5,032	Increase in underlying need to borrow (unsupported by government financial assistance)	2,482
(12,183)	Provision for the repayment of debt	(11,491)
638	Other	206
(6,513)	Increase / (decrease) in Capital Financing Requirement	(8,803)

**34. 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:

	<b>31st March 2013</b> <b>£000</b>	<b>31st March 2014</b> <b>£000</b>
Other Land & Buildings	428	774
Vehicles, Plant & Equipment	2,779	2,812
	<b>3,207</b>	<b>3,586</b>

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

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	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£000</b>	<b>£000</b>
Finance lease liabilities (net present value of minimum lease payments):		
Current	935	929
Non-current	8,451	7,257
<b>Total</b>	<b>9,386</b>	<b>8,186</b>

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

	<b>Minimum Lease Payments</b>		<b>Finance Lease Liabilities</b>	
	<b>31 March 2013</b>	<b>31 March 2014</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not later than one year	943	938	724	748
Later than one year and not more than five years	3,352	2,520	2,769	2,027
Later than five years	7,374	7,267	1,007	1,000
<b>Total</b>	<b>11,669</b>	<b>10,725</b>	<b>4,500</b>	<b>3,775</b>

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 2012/13 and 2013/14 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 2014 the minimum payments expected to be received under non-cancellable sub-leases was £0.4m (£0.3m at 31st March 2013).

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*Operating Leases*

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

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

	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£000</b>	<b>£000</b>
Not more than one year	1,371	1,271
Later than one year and not later than five years	4,169	3,561
Later than five years	34,258	32,887
<b>Total</b>	<b>39,798</b>	<b>37,719</b>

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:

	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£000</b>	<b>£000</b>
Finance lease debtor (net present value of minimum lease payments):		
current	648	602
non current	4,382	3,780
Unguaranteed residual value of property	376	376
<b>Gross investment in lease</b>	<b>5,406</b>	<b>4,758</b>

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

	<b>Gross Investment in the Lease</b>		<b>Minimum Lease Payments</b>	
	<b>31 March 2013</b>	<b>31 March 2014</b>	<b>31 March 2012</b>	<b>31 March 2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not later than one year	648	602	648	602
Later than one year and not later than five years	1,886	1,298	1,613	1,298
Later than five years	2,872	2,858	2,769	2,482
	<b>5,406</b>	<b>4,758</b>	<b>5,030</b>	<b>4,382</b>

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

The minimum lease payments where the Council is a lessor under a finance lease 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 2012/13 or 2013/14.

*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:

	<b>31st March 2013</b>	<b>31st March 2014</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	5,547	6,190
Later than one year and not later than five years	15,983	20,229
Later than five years	5,490	5,588
<b>Total</b>	<b>27,020</b>	<b>32,007</b>

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The minimum lease payments receivable where the Council is the lessor under an operating lease do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/14 and 2012/13 no contingent rents were receivable by the Authority.

**35. 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.

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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.

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

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	<b>Miltoncross Secondary School £000</b>	<b>Learning Disability Facilities £000</b>	<b>Highways Maintenance £000</b>	<b>Waste Disposal £000</b>	<b>Total £000</b>
<b>Cost or Valuation</b>					
At 1st April 2012	22,678	7,274	89,463	14,107	133,522
Additions	0	0	7,158	0	7,158
Revaluations	0	0	0	0	0
Reclassifications	21	0	3,348	0	3,369
At 1st April 2013	22,699	7,274	99,969	14,107	144,049
Additions	0	0	0	0	0
Disposals	0	0	(688)	0	(688)
Revaluations	(1,021)	(131)	0	2,419	1,267
Reclassifications	27	0	3,470	0	3,497
<b>At 31st March 2014</b>	<b>21,705</b>	<b>7,143</b>	<b>102,751</b>	<b>16,526</b>	<b>148,125</b>
<b>Depreciation</b>					
At 1st April 2012	(340)	(113)	(13,262)	(2,664)	(16,379)
Charge in Year	(340)	(113)	(2,367)	(890)	(3,710)
Revaluations	0	0	0	0	0
Reclassifications	0	0	0	0	0
At 1st April 2013	(680)	(226)	(15,629)	(3,554)	(20,089)
Charge in Year	(340)	(113)	(2,423)	(890)	(3,766)
Disposals	0	0	688	0	688
Revaluations	1,021	339	0	0	1,360
Reclassifications					
<b>At 31st March 2014</b>	<b>1</b>	<b>0</b>	<b>(17,364)</b>	<b>(4,444)</b>	<b>(21,807)</b>
<b>Impairment</b>					
At 1st April 2012	(1,489)	(743)	(4,007)	(92)	(6,331)
Charge in Year	(21)	0	0	0	(21)
Reclassifications	0	0	0	0	0
At 1st April 2013	(1,510)	(743)	(4,007)	(92)	(6,352)
Charge in Year	1,173	476	(12)	92	1,729
Reclassifications	0	0	0	0	0
<b>At 31st March 2014</b>	<b>(337)</b>	<b>(267)</b>	<b>(4,019)</b>	<b>0</b>	<b>(4,623)</b>
<b>Net Book Value</b>					
At 1st April 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
At 31st March 2014	21,369	6,876	81,368	12,082	121,695

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



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	Liability as at 31 March 2013 £000	Payments £000	Liability as at 31 March 2014 £000
Milton Cross School	(11,845)	184	(11,661)
Learning Disability Facilities	(4,169)	67	(4,102)
Highways Maintenance	(57,425)	(33)	(57,458)
Waste Disposal	(10,782)	630	(10,152)
<b>Total</b>	<b>(84,221)</b>	<b>848</b>	<b>(83,373)</b>

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

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

	Repayments of Liability £000	Interest £000	Service Charges £000	Total Revenue Commitment £000	Life Cycle Replacement Costs £000	Total Commitment £000
Within 1 year	305	8,928	17,709	26,942	4,356	31,298
Within 2 to 5 years	9,299	34,299	75,140	118,738	12,447	131,185
Within 6 to 10 years	24,663	33,679	105,229	163,571	15,012	178,583
Within 11 to 15 years	30,920	20,627	90,980	142,527	20,638	163,165
Within 16 to 20 years	18,186	2,296	17,460	37,942	681	38,624
<b>Total</b>	<b>83,373</b>	<b>99,829</b>	<b>306,518</b>	<b>489,718</b>	<b>53,135</b>	<b>542,854</b>

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

**Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers and other employees, the council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

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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 plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits earned after 31 March 2014 are based on a Career Average Revalued Earnings scheme.

The funded nature of the LGPS requires the council and to 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 37.

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 was able to determine its share of the liabilities in the PNPF for the first time. As a result The PNPF was accounted for on a 'defined benefit' basis from 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 via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

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<b>Comprehensive Income and Expenditure Statement:</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£000s</b>	<b>£000s</b>
<b>Cost of services</b>		
Current service cost	17,430	20,296
Past service cost	1,050	440
<b>Financing and Investment Income and Expenditure</b>		
Net Interest Expense	14,530	14,887
<b>Total Post Employment Benefit charged to the Surplus of deficit on the Provision of services</b>	<b>33,010</b>	<b>35,623</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Return on plan assets in (excess) / below that recognised in net interest	(42,270)	(6,704)
Actuarial (gains) / losses due to changes in financial assumptions	56,250	(41,487)
Actuarial (gains) / losses due to changes in demographic assumptions	-	(8,230)
Actuarial (gains) / losses due to liability experience	(460)	(6,613)
Total (gains) / losses from reclassification	1,676	-
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>15,196</b>	<b>(63,034)</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the surplus or deficit for the Provision of Services for post-employment benefits in accordance with the Code	33,010	35,623
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
Employers' contributions payable to scheme	17,864	17,984
Retirement benefits payable to pensioners	1,563	2,594
	<b>19,427</b>	<b>20,578</b>

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The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement from 1<sup>st</sup> April 2006 when the Council adopted FRS 17 to 31st March 2014 is a loss of £117.0m

**Assets and Liabilities in relation to retirement benefits**

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

	Funded Liabilities		Funded Liabilities		Unfunded Liabilities		Unfunded Liabilities		Total	
	Local Government Pension Scheme		Pilot Pension Scheme		Local Government Pension Scheme		Teachers' Additional Benefits			
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Opening balance at 1 April	(708,530)	(796,640)	-	(3,766)	(12,333)	(13,911)	(8,311)	(8,551)	(729,174)	(822,868)
Current service cost	(17,430)	(20,260)	-	(36)	-	-	-	-	(17,430)	(20,296)
Interest Expense	(32,810)	(34,660)	-	(150)	(550)	(550)	(370)	(340)	(33,730)	(35,700)
Contributions by scheme participants	(5,650)	(5,710)	-	(5)	-	-	-	-	(5,650)	(5,715)
Actuarial gains and (losses) - Financial Assumptions	(54,330)	40,437	-	50	(1,220)	620	(700)	380	(56,250)	41,487
Actuarial gains and (losses) - Demographic Assumptions	-	8,830	-	50	-	(380)	-	(270)	-	8,230
Actuarial gains and (losses) - Liability Experience	1,000	6,142	-	21	(770)	550	230	(100)	460	6,613
Benefits paid	22,160	24,120	-	207	962	900	600	620	23,722	25,847
Past service costs Including curtailments	(1,050)	(440)	-	-	-	-	-	-	(1,050)	(440)
Net Increase in assets from reclassification	-	-	(3,766)	-	-	-	-	-	(3,766)	-
Closing balance at 31 March	(796,640)	(778,181)	(3,766)	(3,629)	(13,911)	(12,771)	(8,551)	(8,261)	(822,868)	(802,842)

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

	<b>Local Government Pension Scheme</b>		<b>Pilot Pension Scheme</b>	
	<b>2012/13</b>	<b>2013/14</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	407,328	470,137	2,090	2,105
Interest Income	19,200	20,700	-	122
Remeasurement gains / (losses)	42,270	6,780	-	(76)
Contributions by employer	17,849	17,785	15	1,071
Contributions by participants	5,650	5,710	-	5
Net benefits paid out	(22,160)	(24,120)	-	(207)
Administrations costs incurred	-	-	-	(16)
Closing balance at 31 March	470,137	496,992	2,105	3,004

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 are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £27.48m for the LGPS and £46,000 for the PNPf.

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**Scheme history**

	<b>2009/10 Restated £000</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Present value of funded liabilities (LGPS)	(677,100)	(625,150)	(708,530)	(796,640)	(778,181)
Present value of funded liabilities (Pilot Pension Scheme)	-	-	-	(3,766)	(3,629)
Present value of unfunded liabilities (LGPS and Teachers)	(22,796)	(19,774)	(20,645)	(22,462)	(21,032)
Fair value of assets (LGPS)	361,649	387,108	407,328	470,137	496,992
Fair value of assets (Pilot Pension Scheme)	-	-	-	2,105	3,004
<b>Surplus/(deficit) in the scheme:</b>	<b>(338,247)</b>	<b>(257,816)</b>	<b>(321,847)</b>	<b>(350,626)</b>	<b>(302,846)</b>

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £302.7m 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 2015 is £18.2m for the LGPS and £8,000 for the PNP Scheme.

**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 2013 and the latest valuation of the PNP as at 31 December 2010. These calculations have been updated to 31 March 2014 by Aon Hewitt Limited allowing for the IAS 19 financial and demographic assumptions.

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	Funded	Funded	Funded	Funded	Unfunded	Unfunded	Unfunded	Unfunded
	LGPS	LGPS	Pilot Pension Scheme	Pilot Pension Scheme	LGPS	LGPS	Teachers	Teachers
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
Mortality assumptions:								
Longevity at 65 for current pensioners:								
Men	24	24.4	22.8	22.6	24	24.4	24	24.4
Women	25	26.2	25.2	25	25	26.2	25	26.2
Longevity at 65 for future pensioners:								
Men	25.7	26.5	24.6	24.4	0	0	0	0
Women	26.9	28.5	27.1	27	0	0	0	0
Rate of inflation	2.7%	2.4%	2.6%	2.4%	2.6%	2.2%	2.6%	2.2%
Rate of increase in salaries	4.6%	3.9%	4.0%	3.8%	0.0%	0.0%	0.0%	0.0%
Rate of increase in pensions	2.7%	2.4%	2.6%	2.4%	2.6%	2.2%	2.6%	2.2%
Rate for discounting scheme liabilities	4.4%	4.3%	4.1%	4.2%	4.1%	4.2%	4.1%	4.2%

**Commutation: LGPS**

<b>31 March 2014</b>	<b>31 March 2013</b>
Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum	<p>Each member assumed to exchange 25% of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for additional lump sum.</p> <p>Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum.</p>

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**Commutation: Pilots Pension Scheme**

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

The Local Government Pension Scheme and Pilot Pension Scheme consist of the following asset categories, by proportion of the total assets held:

	<b>LGPS</b>		<b>PNPF</b>	
	<b>2013/14</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2012/13</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Equity Investments	57.6	57.6	22.9	16.8
Bonds	26.2	24.9	58.5	39.0
Other assets	16.2	17.5	18.6	44.2
	100.0	100.0	100.0	100.0

**37. PENSION SCHEMES ACCOUNTED FOR 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 2013/14, the council paid £6.45m to Teachers' Pensions in respect of teachers' retirement benefits; the equivalent amount paid in 2012/13 was 6.92m.

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 36.



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**38. LONG TERM DEBTORS**

<b>2012/13</b>	<b>2013/14</b>
<b>£'000</b>	<b>£'000</b>
16,203 Finance Lease Debtors	15,332
- Loans - Local Enterprise Partnership	6,675
6,769 Mortgages - General Fund	6,380
3,114 Other	3,062
<u>26,086</u>	<u>31,449</u>

**39. OTHER LONG TERM LIABILITIES**

<b>2012/13</b>	<b>2013/14</b>
<b>£000</b>	<b>£000</b>
(14,308) Assets transferred from Hampshire County Council	(13,841)
(83,374) Service Concessions (including PFIs)	(83,068)
(6,623) Other	(6,136)
<u>(104,305)</u>	<u>(103,045)</u>

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

	Heritage Assets 2009-10 £000	Heritage Assets 2010-11 £000	Heritage Assets 2011-12 £000	Heritage Assets 2012-13 £000	Heritage Assets 2013-14 £000
<b>Cost or Valuation</b>					
Museum Collections	12,303	12,303	12,303	12,303	12,303
Historic Buildings	29,857	29,962	29,950	30,366	30,801
Others	5,377	5,377	5,377	5,604	5,698
	47,537	47,642	47,630	48,273	48,802
<b>Additions / Donations</b>	0	0	0	0	0
<b>Disposals</b>	0	0	0	0	0
<b>Revaluations:</b>					
Historic Buildings	(27)	(12)	365	(53)	(79)
Museum Collections	0	0	0	0	2,495
Archives	0	0	0	0	11,843
Other	0	0	0	0	357
<b>Reclassifications:</b>					
Historic Buildings	132	0	52	488	253
Other	0	0	226	94	0
<b>At 31st March</b>	<b>47,642</b>	<b>47,630</b>	<b>48,273</b>	<b>48,802</b>	<b>63,671</b>
<b>Depreciation at 1st April</b>					
Historic Buildings	(13)	(3)	(6)	(16)	(23)
<b>Charge in Year:</b>					
Historic Buildings	(13)	(15)	(10)	(7)	(6)
<b>Revaluations:</b>					
Historic Buildings	23	12	0	0	13
<b>At 31st March</b>	<b>(3)</b>	<b>(6)</b>	<b>(16)</b>	<b>(23)</b>	<b>(16)</b>
<b>Impairment at 1st April</b>					
Historic Buildings	(148)	(292)	(323)	(312)	(841)
<b>Charge in Year:</b>					
Historic Buildings	(144)	(31)	11	(435)	(224)
Memorials	0	0	0	(94)	0
<b>At 31st March</b>	<b>(292)</b>	<b>(323)</b>	<b>(312)</b>	<b>(841)</b>	<b>(1,065)</b>
<b>Net Book Value</b>					
Museum Collections	12,303	12,303	12,303	12,303	12,303
Historic Buildings	29,696	29,667	29,621	30,038	30,031
Archives	0	0	0	0	0
Other	5,377	5,377	5,377	5,604	5,604
<b>At 1st April</b>	<b>47,376</b>	<b>47,347</b>	<b>47,301</b>	<b>47,945</b>	<b>47,938</b>
<b>Net Book Value</b>					
Museum Collections	12,303	12,303	12,303	12,303	14,798
Historic Buildings	29,667	29,621	30,038	30,031	29,987
Archives	0	0	0	0	11,843
Other	5,377	5,377	5,604	5,604	5,962
<b>At 31st March</b>	<b>47,347</b>	<b>47,301</b>	<b>47,945</b>	<b>47,938</b>	<b>62,589</b>

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**41. 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) 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 £14.8m.

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.

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.

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**c) 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.

***42. TRUST FUNDS***

Portsmouth City Council acts as one of several trustees for four trust funds. The funds' assets do not 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. At 31 March 2013 the trust funds had £5.0m of investments. In 2013/14 the administration and the Council's trusteeship responsibilities for most of the trust funds were transferred to the Hampshire and Isle of Wight Community Foundation. At 31 March 2014, the remaining trust funds of which the Council was a trustee had investments amounting to £0.2m.

***43. 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:

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(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band (£)	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
£0-£20,000	48	47	75	58	123	105	£793,763	£658,298
£20,001 - £40,000	4	6	12	13	16	19	£449,652	£503,449
£40,001 - £60,000	1	1	7	7	8	8	£372,898	£369,381
£60,001 - £80,000	0	1	4	1	4	2	£282,655	£138,346
£80,001 - £100,000	0	0	0	0	0	0	£0	£0
£100,000 - £150,000	0	0	2	0	2	0	£229,892	£0
£150,001 - £200,000	0	0	1	0	1	0	£155,960	£0
<b>Total cost included in bandings</b>	<b>53</b>	<b>55</b>	<b>101</b>	<b>79</b>	<b>154</b>	<b>134</b>	<b>£2,284,820</b>	<b>£1,669,474</b>
<b>Add: Amounts provided for in CIES not included in bandings</b>							0	0
<b>Total cost included in CIES</b>							<b>£2,284,820</b>	<b>£1,669,474</b>

**44. OTHER COMPANIES**

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.

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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 £4.6m.

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.

Four loans totalling £3.2m have been advanced to MMD by the Council. These loans carry interest at 4.81% per annum and mature in 2029, 2030, 2031 and 2032.

The Council's exposure to losses arising from its ownership of MMD is therefore limited to £8.4m, i.e. 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 £0.8m (£2.4m in 2012/13) of goods and services to MMD during 2013/14. In addition the Council received £0.3m (£0.3m in 2012/13) of pilotage income through MMD.

Portsmouth City Council has paid capital and revenue grants totalling £1.7m in 2013/14 (£2.2m in 2012/13) to MMD.

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

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

<b>2012/13</b>		<b>2013/14</b>
£'000		£'000
15,695	Gross Expenditure	17,028
(15,700)	Gross Income	(17,097)
<b>(5)</b>	<b>Net Expenditure</b>	<b>(69)</b>

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.

**45. EXCEPTIONAL ITEMS**

The City Council received a government grant of £48.8m in 2013/14 under the City Deal. This grant must be applied to the same purposes as a capital receipt, principally to fund capital expenditure or repay the principal on borrowings.

**46. LOSS ON DISPOSAL OF NON CURRENT ASSETS**

The loss on disposal of non-current assets has principally arisen through the transfer of three Primary Schools valued at £14.9m, one Secondary School valued at £4.6m and one Special School valued at £11.6m to academy trusts, all of which are on long leases at a pepper corn rent.

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**47. EVENTS AFTER THE REPORTING PERIOD**

The Statement of Accounts was authorised for issue by the Head of Financial Services and Section 151 Officer on 30 June 2014. 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 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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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 taxes and their distribution to local Authorities and the Government. Although the Collection Fund is a single account it has two distinct elements, Council Tax and Business Rates.



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2012/13 £000	Council Tax	Note	2013/14 £000
(68,377)	<b>Income</b> Council tax		(73,081)
	<b>Transfers from General Fund</b>		
(14,199)	Council Tax Benefit		0
(21)	Council Tax write ons		(12)
	<b>Contributions received towards estimated (deficit)</b>		
(32)	Hampshire Police Authority		(22)
(14)	Hampshire Fire & Rescue Authority		(9)
(254)	Portsmouth CC General Fund		(169)
<b>(82,897)</b>			<b>(73,293)</b>
	<b>Expenditure</b>		
	Precepts		
8,763	Hampshire Police Authority		7,638
3,677	Hampshire Fire and Rescue Authority		3,100
68,851	Portsmouth City Council		59,163
<b>81,291</b>			<b>69,901</b>
	<b>Bad and doubtful debts</b>		
563	Amounts written off		354
651	Provision		1,154
<b>82,505</b>			<b>71,409</b>
(392)	<b>(Surplus)/Deficit for year</b>		(1,884)
419	(Surplus)/Deficit b/fwd at 1st April		27
(392)	(Surplus)/Deficit for year		(1,884)
<b>27</b>	<b>Fund balance at 31st March - (Surplus)/Deficit</b>		<b>(1,857)</b>
	<b>Apportioned:</b>		
3	Hampshire Police Authority		(203)
1	Hampshire Fire & Rescue Authority		(82)
23	Portsmouth City Council		(1,572)
<b>27</b>			<b>(1,857)</b>

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2012/13 £000	Business Rates / NNDR	Note	2013/14 £000
(80,230)	Income from Business Ratepayers		(81,224)
0	Less: Provision for Losses on Appeal		13,864
(80,230)			(67,360)
	<b>Business Rates Apportioned to:</b>		
79,273	DCLG		39,565
0	Portsmouth City Council		38,774
0	Hampshire Fire & Rescue Authority		791
0	DCLG - Transitional Surcharge		2,514
280	Cost of Collection		281
3	Interest Paid on Overpayments Refunded		28
	<b>Bad and Doubtful Debts</b>		
454	NNDR - Amounts written off		467
220	NNDR - Change in Provision		561
<b>80,230</b>			<b>82,981</b>
	<b>(Surplus)/Deficit for year</b>		15,621
0	(Surplus)/Deficit b/fwd at 1st April		0
0	(Surplus)/Deficit for year		15,621
<b>0</b>	<b>Non-Domestic Rates at 31st March - (Surplus)/Deficit</b>		<b>15,621</b>
	<b>Apportioned:</b>		
0	DCLG		7,811
0	Portsmouth City Council		7,654
0	Hampshire Fire & Rescue Authority		156
<b>0</b>			<b>15,621</b>
<b>27</b>	<b>Total Collection Fund (Surplus) / Deficit</b>		<b>13,764</b>

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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	12,700	6/9	8,467
B	20,591	7/9	16,015
C	16,910	8/9	15,031
D	4,808	9/9	4,808
E	2,987	11/9	3,651
F	1,449	13/9	2,093
G	585	15/9	975
H	24	18/9	47
	60,054		51,087
Less: adjustment for non-collection			(1,226)
Add: MoD dwellings contribution			640
2013/14 tax base			50,501

Multiplying the 2013/14 tax base of £50,501 to the standard council tax of £1,384.16, gives the total precepts on the Collection Fund of £69.901m.

**2. Income from business ratepayers**

The Council collects, under the arrangements for localised business rates, non-domestic rates based on local rateable values multiplied by a uniform rate.

Under reforms introduced by The Localism Act 2012 and the Retention of Business Rates, with effect from 2013/14 income collected from business rates is now shared between three organisations.

The Department of Communities and Local Government (DCLG) receives (50%), the City Council (49%) and the Hampshire Fire and Rescue Authority (HF&RA) receives (1%). The total non-domestic rateable value at 31 March 2014 was £202.4m. The non-domestic rates multiplier for the year was 46.2p for small business and 47.1p for other non-domestic properties. The gross yield for the year was £89.694m and the net 2013/14 yield was £81.1m.

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In preparing the accounts of the City Council and Fire Authority it is now necessary to make provision for refunds of income received to date that may be required due to appeals against rateable values that have been submitted by the occupier of business premises. A provision has been made for £13.9m for future losses arising from outstanding valuation appeals.

**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 Fire or Police fund. The Council Tax part of the Collection Fund has realised a surplus of £1.9m as at 31 March 2014, this is £0.5m higher than the surplus of £1.4m that was estimated in January 2014. The City Council's share of the Collection Fund surplus on this part of the fund is £1.6m the Police Authority's share is £0.2m and the Fire and Rescue Authority's share is £0.1m. The precepting authorities' aggregate shares of council tax assets and liabilities are included within Debtors in the Balance Sheet.

Any surplus or deficit anticipated on Non-Domestic Rate revenues must be allocated between the Government (50%), the City Council (49%) and the Hampshire Fire and Rescue Authority (1%). The Non-Domestic Rate part of the Collection Fund has realised a deficit of £15.6m as at 31 March 2014, this is £10.7m higher than the deficit of £4.9m that was estimated in January 2014. The City Council's share of the Collection Fund deficit on this part of the fund is £7.6m the Government's share is £7.8m and the Fire and Rescue Authority's share is £0.2m.

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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.

Restated 2012/13 £000	Expenditure	2013/14 £000
23,862	Repairs & Maintenance	23,547
	Supervision & Management:	
11,393	- General	13,264
10,932	- Special Services	11,846
1,445	Rent rates taxes & other charges	1,802
222	Negative HRA Subsidy payable	0
	Depreciation (and Impairments) of Non-current Assets:	
7,158	- Dwellings	(631)
1,283	- Other Assets	1,090
134	Amortisation of deferred charges and intangible assets	144
47	Debt management costs	45
429	Movement in allowance for bad debts	(1)
32	Sums directed by the secretary of state *	0
<b>56,937</b>	<b>Total Expenditure</b>	<b>51,106</b>
	<b>Income</b>	
(58,788)	Dwelling rents (gross)	(64,085)
(2,352)	Non-dwelling rents	(2,437)
(7,813)	Service charges (Tenants charges for services)	(8,785)
<b>(68,953)</b>	<b>Gross rents</b>	<b>(75,307)</b>
(1,322)	Leaseholders charges for services & facilities	(1,755)
(720)	Other Charges for Services & Facilities	(828)
(1,461)	Contributions toward expenditure	(1,492)
<b>(72,456)</b>	<b>Total Income</b>	<b>(79,382)</b>
<b>(15,421)</b>	<b>Net Cost of HRA Services as included in the CIES</b>	<b>(28,276)</b>
124	HRA's share of corporate & democratic core	126
<b>(15,297)</b>	<b>Net cost of HRA Services</b>	<b>(28,150)</b>
(882)	(Gain) or loss on the sale of HRA non-current assets	(1,327)
6,959	Interest payable & similar charges	7,035
(308)	Interest and investment income	(326)
1,260	Pensions interest cost and expected return on pensions assets	1,103
(8)	Income, expenditure changes in the fair value of investment	(130)
(2,648)	Capital grants and contributions receivable	(351)
<b>(10,924)</b>	<b>Surplus / Deficit for the year on HRA services</b>	<b>(22,146)</b>

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***MOVEMENT ON THE HRA STATEMENT***

2012/13 £000	Movement on the HRA Statement	2013/14 £000
(10,682)	<b>Balance on the HRA at the end of the previous year</b>	(8,491)
(10,924)	(Surplus) or deficit for the year on the HRA Income & expenditure account	(22,146)
10,243	Adjustments between accounting basis & funding basis under statute	28,557
(681)	Net (Increase) or decrease before transfers to or from reserves	6,411
2,872	Transfers to / from reserves	(8,930)
2,191	(Increase / decrease) in HRA in year	(2,519)
<b>(8,491)</b>	<b>Balance on the HRA at the end of the current year</b>	<b>(11,010)</b>

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

- Capital investment is accounted for as it is financed, rather than when the assets are consumed. In particular £13.6m of prior year impairments were reversed in the 2013/14 Income and Expenditure Account. The credit of £13.6m in the 2013/14 Income and Expenditure Account is reversed out by a debit in the Movement on the Housing Revenue Account Reserves Statement.
- 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 Reserves 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**

Restated 2012/13 £'000		2013/14 £'000
	<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	
	<b>- Adjustments involving the Capital Adjustment Account:</b>	
3,936	Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement	10,796
	<b>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
2,954	Sums set aside from revenue to fund capital expenditure	15,101
3,353	Other Adjustments	2,660
10,243		28,557

**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, 1.55% of lettable dwellings were vacant. In 2012/13 the figure was 1.15%. The average dwelling rent was £79.44 per week in 2013/14, an increase of £4.45 over the previous year.

**Depreciation of non-current assets**

The depreciation charge is broken down as follows:

<b>Depreciation charge:</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Council houses	12,519	12,930
Other	1,328	1,295
	<b>13,847</b>	<b>14,225</b>

**Impairment**

Impairment is the reduction in the value of an asset, measured by specific criteria, to below its carrying amount in the balance sheet. Impairments may be reversed if an asset is subsequently revaluated upwards.

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<b>Impairment Charge:</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Council Houses	(5,360)	(13,745)
Other Assets	89	39
	<b>(5,271)</b>	<b>(13,706)</b>

### **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 from the reserve of £8.9m was made during the year.

#### **1) Transfer to/from major repairs reserve**

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

	<b>Houses £000</b>	<b>Other £000</b>	<b>Repayment of borrowing £000</b>	<b>2013/14 Total £000</b>	<b>2012/13 Total £000</b>
Balance at 1st April 2013	(10,104)	0	0	(10,104)	(9,338)
Transferred from HRA	(12,930)	(1,294)	0	(14,224)	(13,708)
Transferred to HRA	222	0	0	222	0
Financing of capital expenditure	10,105	0	0	10,105	12,940
<b>Balance at 31st March</b>	<b>(12,707)</b>	<b>(1,294)</b>	<b>0</b>	<b>(14,001)</b>	<b>(10,104)</b>



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	Houses £000	Other £000	Repayment of borrowing £000	2013/14 Total £000	2012/13 Total £000
Balance at 1st April 2013	(8,777)	(1,328)	0	(10,105)	(9,338)
Transferred from HRA	(13,813)	0	0	(13,813)	(13,708)
Financing of capital expenditure	10,105	0	0	10,105	12,941
Balance at 31st March	(12,485)	(1,328)	0	(13,813)	(10,105)

### Housing stock

The Council was responsible for managing an average of 15,121 dwellings (excluding mobile homes) during 2013/14. 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	2013/14
Houses	4,574	4,566	4,521
Flats	10,610	10,612	10,544
	15,184	15,178	15,065
Mobile homes	117	117	117
	<b>15,301</b>	<b>15,295</b>	<b>15,182</b>

The change in stock can be summarised as follows:

Change in Stock	Number of Dwellings	
	2012/13	2013/14
Stock at 1st April	15,301	15,295
Less - Sales	(43)	(113)
Bed sit conversion	(1)	0
Demolished	(6)	0
Add - repurchases	3	0
New build	39	0
Leased Dwellings	2	0
Stock at 31st March	<b>15,295</b>	<b>15,182</b>

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

	<b>Council dwellings</b>	<b>Other land &amp; buildings</b>	<b>Other non-operational assets</b>	<b>Other assets</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Net book value at 1st April 2013	437,108	17,954	7,457	3,716	466,235
Depreciation during the year	(12,930)	(317)		(978)	(14,225)
Impairment during the year	13,745	24	26	(89)	13,706
Additions			29,062		29,062
Disposals	(2,934)	(55)			(2,989)
Transfers between categories	17,777	1,585	(18,928)	618	1,052
Revaluations		900		23	923
Net book value at 31st March 2014	<b>452,766</b>	<b>20,091</b>	<b>17,617</b>	<b>3,290</b>	<b>493,764</b>

Vacant possession value of dwellings within the HRA

The vacant possession value of dwellings held within the HRA amounts to £1,415m at 31st March 2014.

The substantial difference between this figure and the net book value figure of £453m reflects the economic cost to government of providing council housing at less than open market rents.

**3) Capital expenditure within the HRA**

Capital expenditure during the year and its financing was:

	<b>Non-Current Assets</b>			<b>Total</b>
	<b>Land</b>	<b>Houses</b>	<b>Other Property</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
<b>Borrowing</b>		802	1,684	2,486
<b>Usable Capital Receipts</b>		2,584		2,584
<b>Revenue Contributions</b>		6,170	6,166	12,336
<b>Major Repairs Reserve</b>		10,105		10,105
<b>Grants and Contributions</b>		512	2,053	2,565
<b>Total</b>	0	20,173	9,903	30,076

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**Exceptional items and prior period adjustments**

For 2013/14, the Council has changed its accounting policy in relation to post-employment benefits in order to meet the new requirements of the revised IAS 19. In particular:

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

The effect of these changes has been to reduce the surplus on the Provision of Services in the HRA by £0.6m in 2013/14. This is matched by a reduction of £0.6m in adjustments between accounting basis and funding basis under statute in the Movement in Reserves Statement so that there is no overall effect on the HRA balances.

**4) Bad Debt Provision**

	<b>31.3.13</b>	<b>Additions and reductions</b>	<b>Write- offs</b>	<b>31.3.14</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Housing rents provision	(2,761)	(319)	0	(3,080)
Sale of flats provision	(78)	0	0	(78)
Other Housing rents	(7)	0	0	(7)
Provision for other HRA bad debts	(1)	0	0	(1)
<b>Total</b>	<b>(2,847)</b>	<b>(319)</b>	<b>0</b>	<b>(3,166)</b>

**5) Revenue Expenditure Funded by Capital Under Statute - REFCUS - (formerly amortisation of deferred charges.)**

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

**6) 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 and accounted for as revenue.
- 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 from the 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.

**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.

**Contingent Liabilities**

Sums arising owing to third parties due to some known event but where the exact amount cannot be determined in advance.

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**Continuing Service**

The portfolio of services provided by the City Council is on-going 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.

**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.

**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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**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.

**Non-Current Assets**

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

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**Non-Distributed Costs**

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

**National Non-Domestic Rates (“NDR”)**

The Non-domestic rate is a nationally set levy on business premises, set by the Government at a standard rate, charged to businesses and collected by the City Council. 49% of non-domestic rates are retained by the Council. Of the remainder, 50% is paid to the Government and 1% is paid to the Hampshire Fire and Rescue Authority.

**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.

**Revenue Support Grant**

An unring-fenced grant paid by central Government to the City Council contributing towards the general cost of its services.

**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.

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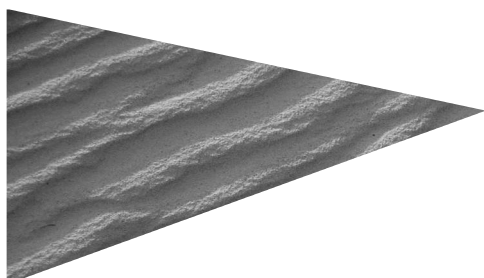
# Portsmouth City Council

## Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

*26 September 2014*



Building a better  
working world

- Kate Handy, Director  
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- ▶ Appendices

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# Executive summary

## *Key findings*

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### ➤ Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Governance and Audit and Standards Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial statements**

- As of 29 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

#### **Value for money**

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

#### **Whole of Government Accounts**

- We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

#### **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. We expect to issue the audit certificate at the same time as the audit opinion.

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# Extent and purpose of our work

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## 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

- Our audit was designed to:
  - Express an opinion on the 2013/14 financial statements
  - Report on any exception on the governance statement or other information included in the foreword
  - Consider and report any matters that prevent us 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)
- In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.
- As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.
- 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 the specified party.

# Addressing audit risks

## Significant audit risks

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

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant and other audit risks (including fraud risks)		
As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	<ul style="list-style-type: none"> <li>➤ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>➤ Reviewed accounting estimates for evidence of management bias; and</li> <li>➤ Evaluated the business rationale for significant unusual transactions.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Journals testing did not identify any instances that suggested management override.</li> <li>➤ Our review of accounting estimates did not identify any examples of management bias</li> <li>➤ No unusual items were identified.</li> </ul>
Other risks		
A number of schools, including Milton Cross, are expected to achieve academy status in 13/14. We will review the accounting for transfers, including any related impairments, and whether they are disclosed correctly.	<ul style="list-style-type: none"> <li>➤ We reviewed the accounting for transfers, including related impairments, and whether they were disclosed correctly.</li> </ul>	<ul style="list-style-type: none"> <li>➤ We concluded the five schools that were transferred on achieving Academy status had been correctly accounted for.</li> </ul>
This is the first full year of account for the Continuing Healthcare pooled budget, which now represents a material item of account.	<ul style="list-style-type: none"> <li>➤ We reviewed the Council's accounting for its share of the income, expenditure, asset and liabilities of the pooled budgets; and whether they were correctly presented in the accounts.</li> </ul>	<ul style="list-style-type: none"> <li>➤ We concluded the pooled budget disclosures were materially accurate.</li> </ul>
From April 2013, there were changes to the arrangements for business rates that require the Council to make a provision for appeals against rating list valuations.	<ul style="list-style-type: none"> <li>➤ We reviewed the reasonableness of the provision and whether it is accounted for and disclosed correctly.</li> </ul>	<ul style="list-style-type: none"> <li>➤ We concluded the Council had conducted a very thorough exercise and that the provision was accounted for correctly under IAS 37, and was properly disclosed</li> </ul>
Following a High Court determination the scheme's actuaries are determining the Council's share of the Pilots National Pension Fund's liabilities.	<ul style="list-style-type: none"> <li>➤ We reviewed the reasonableness of the liability and whether it is accounted for and disclosed correctly.</li> </ul>	<ul style="list-style-type: none"> <li>➤ We concluded that the Council's liability was reasonably calculated and correctly disclosed within the financial statements.</li> </ul>

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# Financial statements audit

## *Issues and misstatements arising from the audit*

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### **Progress of our audit**

- The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
  - Receipt of a Letter of Representation
  - SERCOP analysis
  - Debtors
  - Investments
  - Assorted income and expenditure tests
- Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### **Corrected Misstatements**

- Our audit identified a number of misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.
- We do not consider any of these to be individually significant but we have set out the overall context and nature in Appendix 1 to this report.

### **Uncorrected Misstatements**

- We have not identified any misstatements within the draft financial statements that management has not adjusted.

### **Other Matters**

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are 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; estimates and disclosures;
  - 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; and,
  - Any significant difficulties encountered during the audit; and
  - Other audit matters of governance interest
- In our Audit Plan we set out our plan to rely on the operation of controls over Housing Rents, Accounts Payable and Accounts Receivable. During the year, we determined it would be more efficient to take a substantive audit approach.
- The Council introduced a de minimus for capitalisation of new asset several years ago but the asset register still includes assets below this threshold that were capitalised before its introduction. The management of this increases the level of input required by the capital accountant, and the number of revaluations that need to be conducted by the AMS team (who are currently tasked with revaluing 20% of assets per year). Additionally the AMS team is tasked with valuing non-property assets, for which they are reliant on information held elsewhere in the Council.
- The Council should conduct a review of the asset register to ensure only assets over its de minimus are included and review its approach to revaluations to enable efficiencies.
- We understand the DfT has now indicated Harbour Accounts should be submitted within 9 months of the balance sheet date, but that this has not been communicated to the Council yet. This would mean the 2012/13 and 2013/14 accounts will need to be prepared and audited to meet this statutory duty.

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# Financial statements audit (continued)

## *Internal Control, Written Representations & Whole of Government Accounts*

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### **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. Our 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.
- We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- We 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 we are aware of from our audit of the financial statements.
- We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

### **Request for written representations**

- We have requested a management representation letter to gain management's confirmation in relation to a number of matters. In addition to the standard representations, we have requested the following specific representation:
  - Non-Domestic rates
    - As a new accounting estimate, there is an element of subjectivity involved in calculating the potential impact of future appeals.

### **Whole of Government Accounts**

- Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- We are currently concluding our work in this area and will report any matters that arise to the Governance and Audit and Standards Committee.

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# Arrangements to secure economy, efficiency and effectiveness

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*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves 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, we have regard to the following criteria and focus specified by the Audit Commission.*

## **Criterion 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"*

- We did not identify any significant risks in relation to this criterion in our audit plan but reviewed your arrangements for financial governance, financial planning and financial control.
- We did not identify any notable concerns about financial governance and control, but concluded the Council could strengthen its financial planning arrangements. While corporate processes carefully forecast the medium-term financial position and drive the setting of prudent annual budgets, there is scope to strengthen portfolio and service planning.
- While the Council has relatively high levels of reserves, they are largely committed and the Council is forecasting real challenges over the medium-term. Developing the 2015/16 budget is testing services, and so identifying further efficiencies to mitigate the need for cuts will only become more challenging in 2016/17 and 2017/18. The Council needs to give proper attention to the longer-term issues and challenges it faces and approach these in a planned and strategic manner.
- In this environment, where the Council is actively reviewing its offering to the people and economy of Portsmouth, it is clearly critical it also keeps the focus on how it works, and the potential for transformational change and internal efficiencies. The Council's 'plan on a page' includes internal 'Shaping the Future' objectives (to be more financially independent of central government, and transform the customer relationship), which underpin the Council's long-term financial resilience.
- The Council has reflected on the learning from current corporate transformation projects, and is working to evolve these into an expanded change programme. Delivering this will require considerable corporate and service management capacity, and strong leadership, to ensure proper links are made to service planning. Releasing this capacity will be a major challenge against a background of reducing senior management posts, increasing operational temperature, and the delivery of other major change projects such as the Better Care Fund and the Care Act 2014.
- The Business Intervention Team is planned to support this change agenda but the model relies on taking staff with appropriate skills out of services, to then work with them to identify opportunities. The quality and quantity of backfill for their posts will be a key part of ensuring services have sufficient capacity to meaningfully engage and deliver projects that will inevitably demand significant inputs and focus.



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# Arrangements to secure economy, efficiency and effectiveness

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## Criterion 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.”*

- We did not identify any significant risks in relation to this criterion in our audit plan but did identify two specific risks
  - Last year the Council developed a new corporate plan-on-a-page, redeveloped performance and risk management arrangements, and strengthened the corporate expectation that services prepare three year indicative financial plans. We therefore reviewed how corporate arrangements were bedding in and focused on one service, as a probe.
  - The aggregation of existing funding streams into the Better Care Fund has transformed and accelerated the integration agenda, as the Council and Portsmouth CCG need to agree how to use these funds to achieve better outcomes for patients. We reviewed the two year local plan submitted in February 2014, and assessed progress with the development of the linked 5 year strategy and plans for the expansion of pooled budgets in April 2015.
- The performance and risk management arrangements have strengthened significantly throughout the year, and continual learning has led to the creation of a panel to review service performance reports before they go to the Strategic Directors Board, and triangulate them against other sources of intelligence. This now means the senior management team has a rounded view of progress against its corporate objectives.
- We selected Adult Social Care to review, as this covers a significant proportion of the Council’s total expenditure, and found their performance management arrangements were still developing. They are rolling-out a new business information tool but need to tailor this to meet local needs and to track progress against the objectives set out in their business plan, as they are still reliant on pulling a rounded data set together from separate systems. A training and engagement programme will be needed to embed this. The service does not have a three year business plan and is focussed on addressing a three-fold challenge, the service currently has an underlying deficit that it is meeting by exhausting its portfolio reserves, is working to identify the £4.9m of savings needed in 2015/16, and faces demand and legislative cost pressures of £4m.
- The Better Care Fund plan largely enshrined an existing direction of travel around admissions avoidance, strengthening re-ablement and establishing integrated locality teams. Implementation has been slower than initially expected and the financial and operational implications have not yet been fully worked through. This remains a key area of development for the Council and Portsmouth CCG, working in partnership with local providers. The Health and Well-being Board needs to drive the delivery of this significant change programme; underpinned by the development of a vision for sustainable integrated care services in Portsmouth.
- We also reviewed your arrangements for prioritising resources, and improving efficiency and productivity. We considered these were generally adequate but the Council needs to continue looking outside the organisation to increase its learning from best practice elsewhere, by employing peer reviews and using benchmarking to help identify opportunities for further efficiencies.

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# Independence

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## Independence

- We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 13 March 2014
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the Audit Director and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.
- We confirm that we have met the reporting requirements to the Governance and Audit and Standards Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 13 March 2014
- If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance and Audit and Standards Committee on 26 September 2014.

# Audit fees

## Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	198,180	198,180	
Certification of claims and returns	24,460	28,600	Following reductions in certification requirements, the Audit Commission revised the scale fee down to £20,060 in year. However we are also required to audit two additional transport infrastructure grants, with an associated fee of £4,400.
Non-audit work	0	0	

- Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- At the time of reporting, grant claim certification work is in its early stages and so actual outturn may vary from budget, which is the basis for the proposed final fee above.
- We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

# Appendix 1 - Corrected audit misstatements

## Balance Sheet and Statement of Comprehensive Income and Expenditure

- The following misstatements, identified during the course of our audit, have been corrected by management within the revised financial statements and warrant communicating to you.

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit) £000s	Debit/(Credit) £000s
Correction of REFCUS enties relating to Solent LEP loans.	Usable reserves - Capital grants unapplied	F	6,675	
	Usable reserves - General fund		(6,675)	
	Long term debtors		6,675	
	Capital grants and contributions			(6,675)
	Planning services income			(2,000)
	Planning services expense			2,000
Reclassification of PFI principal repayments in 2014/15.	Other Short term liabilities	F	(654)	
	Other long term liabilities		654	
Under-depreciation of non-current assets.	Acc Dep'n on Council dwellings	F	(411)	
	Acc Dep'n Other land and buildings		(291)	
	Depreciation (HRA)			411
	Depreciation (GF)			291
Cumulative effect of uncorrected misstatement			5,973	(5,973)

### Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

# Appendix 1 - Corrected audit misstatements

## Disclosures

- The following misstatements, identified during the course of our audit, have been corrected by management within the revised financial statements and warrant communicating to you.

Disclosure	Description of misstatement
1. Accounting policies	The accounting policy note does not make reference to the £10k de minimus for capitalisation of assets.
2. Technical review of accounts	<ul style="list-style-type: none"> <li>- Explanatory Foreword.</li> <li>- CIES</li> <li>- Note 1, Accounting Policies.</li> <li>- Note 6, Disclosure of the Impact of a Change In Accounting Policy.</li> <li>- Note 9, Property, Plant &amp; Equipment.</li> <li>- Note 20, Unusable Reserves.</li> <li>- Note 26, Pooled Budgets.</li> <li>- Note 34, Leases.</li> <li>- Collection Fund.</li> <li>- HRA Notes.</li> </ul>
3. Note 33 - Capital Expenditure and Capital Financing	Note should separate out REFCUS under Capital Investment heading

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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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<b>Title of meeting:</b>	Governance and Audit and Standards Committee
<b>Date of meeting:</b>	25 <sup>th</sup> September 2014
<b>Subject:</b>	Performance Management update - Q1, 2014-15
<b>Report by:</b>	Head of HR, Legal and Performance
<b>Wards affected:</b>	n/a
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

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## 1. Purpose of report

- 1.1 To inform members of performance issues arising in the first quarter of the 2014-15 reporting period.

## 2. Recommendations

**The Governance and Audit and Standards Committee are asked to:**

- 1) note the report; and
- 2) comment on the performance issues highlighted in section 4, including agreeing if any further action is required

## 3. Background

- 3.1 This report is part of the regular series of quarterly report highlighting significant performance issues across the organisation. The reports are based on the quarterly highlight reports prepared by Heads of Service, which are in turn based on the priorities for their services identified by Strategic Directors.
- 3.2 Taking some of the lessons from previous quarterly reporting, it was also requested that for quarter 1:
- where possible, issues raised should be supported by the relevant evidence for judgement, such as KPIs, project milestone progress, or relevant comparative data
  - whilst high-level outcome data is important, the reports should focus on the quality and impact of the actual service delivery
- 3.3 For this quarter, it has also been possible to implement a response to the Internal Audit report on performance management, and carry out a challenge process in advance of consideration of reports by Strategic Directors Board. This challenge process considers issues that maybe are missing from the first

draft highlight reports, and seeks to help identify common themes. The panel consists of the City Solicitor, Head of HR, Legal and Performance, Head of Financial Services, Head of Customer, Community and Democratic Services, and the Chief Internal Auditor, supported by Kelly Nash, and identified a number of issues as raised in the report. There is also a much closer relationship with the risk register consideration.

#### **4. Reasons for recommendations**

- 4.1 Appendix 1 contains a full summary of the quarterly responses provided by Heads of Service, against the service priorities.
- 4.2 In terms of the key themes that can be identified running through many of the reports, there is clearly an issue around capacity in the organisation. However, it is not always clear from the reports what the impact of activity is, and more challenge continues to be needed around expressions of value for money, as previously discussed by the committee.

#### **5. Equality impact assessment (EIA)**

- 5.1 Any equality matters arising through performance or value for money consideration will be considered as a discrete process, as separate EIAs will be completed for these areas of work.

#### **6. Legal Implications**

- 6.1 The report has incorporated legal implications and accordingly there are no other immediate legal implications arising from this report.

#### **7. Finance Comments**

- 7.1 The report has incorporated legal issues and accordingly there are no other immediate legal implications arising from this report.

.....  
Signed by: Jon Bell, Head of HR, Legal and Performance

**Appendices: Appendix 1 - Summary of service performance issues**



**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:

<b>Title of document</b>	<b>Location</b>
1. reports to, and minutes of, SDB meetings	Strategy Unit
1. Summary business plans	Strategy Unit

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by Governance and Audit and Standards Committee on 25<sup>th</sup> September 2014

.....  
Signed by:

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# Performance summaries Q1 April 2014 – June 2014

# Children's Social Care and Safeguarding

## Key Items for reporting (different template used)

## Assessment and Intervention

## Integrated Youth Support Service

## Looked After Children

## Safeguarding Monitoring

### Highlights

- Annual survey indicates a positive impact of the Social Work Matters programme, comparing data with that from last year
- A project plan has been developed, and is being progressed, to implement single assessment
- Care leaver workstreams including Boost, supported housing and New Belongings are progressing well
- Good performance in annual PIs for health assessments, placement stability, permanent placements through adoption – improving and good compared with statistical neighbours
- Fostering recruitment continues to be strong and Independent Fostering Arrangement placements have reduced from 83 in April 2013 to 75
- Local Authority Designated Officer continuing to have a positive impact in relation to referral numbers and response rates
- Significant reduction in repeat child protection plans is being sustained

### Areas that need watching

- Timeliness of care proceedings dropped to 41 weeks in Q4, and PCC will average 39 weeks in 2013/14 against an England average of 33 weeks
- Need to ensure all young people 16+ in care and leaving care have a bank account
- Repeat episodes of care PI is too high, and further analysis is needed to ensure that appropriate support is in place when children are returned home.
- Minimising risk around data protection breaches and significant increase in FOI requests

### Areas requiring improvement

- Sickness within the service is decreasing but remains higher than PCC averages – Social Work Matters may have had a positive impact in the areas it was initially rolled out. HR support needed in some areas.
- Monitoring of the Leaving Care Grant arrangements
- Time taken between court authorisation to place a child and matching with adoptive parents needs improving
- Reducing Independent Reviewing Officer changes for looked after children

# Adult Social Care

<b>Key Items for reporting</b>
<b>Implementing Better Care</b>
<b>Implementing Care Act 2014</b>
<b>Page 2009</b>
<b>Service Activity</b>

## Highlights

- Better Care Fund programme has been submitted to and agreed by Department of Health – KPIs identified
- Development of a Resource Allocation System (RAS) for Older People and Physically Disabled People (OP/DP) – now ‘LIVE’ whilst the Learning Disability RAS is currently being developed
- Changes to the statutory reporting requirements are progressing – Zero Based Review project established
- Overhaul of client recording system started, removal of unnecessary fields/creation of outcome based fields. Mandatory training being developed to ensure accurate data capture and management reporting
- Performance Dashboard developed
- Statutory returns completed and submitted to Department of Health

## Areas that need watching

- Better Care risks – funds available for ASC services; capacity to meet metrics
- Zero based review
- Care Bill Implications – changes to paying for care; capacity to undertake finance work; capacity to undertake increased numbers of assessments from October 2015
- Statutory Return Data

## Areas requiring improvement

- Implementing Care Act 2014 – project management support required
- Number of people receiving personal budgets
- Number of people with a learning disability in employment
- Numbers of people with a mental health problem in employment
- Number of people with a learning disability living in their own home

# Integrated Commissioning Unit

## Key Items for reporting

### Delivering better care for vulnerable adults

Development of an integrated service model and pathway for pre-birth to 5

### Personalisation

### Developing community mental health services

### Contract and provider management

### Voluntary and community sector market development

## Highlights

- Completed a Strategic Work Plan in consultation with stakeholders
- Good overall progress against key priorities, in particular:
- Work done to deliver the Winterbourne Strategy highlighted as good practice by NHS England
- Sign off of s75 for Learning Disability Service which supports the delivery of an Integrated Service Model
- Targeted support and workforce development of ICU team to deliver on a diverse workplan
- Streamlining contracting process to ensure robust contract management

## Areas that need watching

- Ensuring the ICU team has the capacity and appropriate resources to deliver the work programme
- Ensure priorities of various stakeholders are managed as per agreed timescales

## Areas requiring improvement

- Clarity around project management and ongoing responsibilities with stakeholders
- Clear working arrangements and protocols with stakeholders on individual areas of work.

# Positive Family Steps Service

## Key Items for reporting

## Meet our troubled families commitments by March 2015

## Service impact and outcomes

## Phase 2 Troubled Families Programme

## Mainstream services

## Positive Family Futures Transformation Work

### Highlights

- Key troubled family targets met
- Early payment by result claim work underway and likely to achieve the remaining target in the claim window (July / August)
- Priority B performance reports now include all services performance and include trending detail
- Main indicator adjusted to make more prominent the contribution of priority B services to preventing escalation of families into tier 4 service
- Think Family Mentors started on the 7 July 2014
- Phase II troubled families programme detail due out late Summer
- Multi-systemic Therapy (MST) business case nearing completion
- Positive Family Futures work continues to develop in Paulsgrove & Wymering

### Areas that need watching

- National evaluation of troubled families programme have requested more detailed information about families
- Looked After Children (LAC) overall numbers remain static / increasing (depending on age range) analysis underway to demonstrate impact of priority B service. Attribution issue in LAC performance reporting continues to be challenged.
- Journey into work indicator requires refinement
- Timescales necessary to make strategic decisions about Phase II troubled families programme
- Maintaining MST business case timetable to secure funding from March 2015
- Preserving the Positive Family Futures as different to the emergent 'locality models'

### Areas requiring improvement

- Families Moving Forward service operating waiting list (work underway to increase capacity of the service)
- Enhance in MST business case the options to expand current service and acquire a further MST service (adaption e.g. Child and Abuse Neglect service)
- Positive Family Futures suite of measures and governance
- Publicity plan to celebrate the achievement of the 'troubled family' targets

# Education and Strategic Commissioning

## Key Items for reporting

### School standards

### Securing sufficient good + school places

### Universal Free School Meals

### Implementing Children and Families Act 2014

### Efficiency Savings

## Highlights

- Provisional figures for 2014 look promising at all key stages
- % of schools that are either good or outstanding around 70%, with approximately 70-75% of Ofsted inspections in this academic year so far judged as good or outstanding
- So far all 3 centres inspected under the new framework have been judged as good (compares to 52% national average); Ofsted Early Years annual report cites Portsmouth as 16<sup>th</sup> out of 150 LAs for % of children on Free School Meals achieving Good Level of Development
- 2 year old places remain sufficient
- Good progress on implementation of Special Educational Need and Disability (SEND) reforms – on track to be fully compliant with the new duties
- Inclusion (formerly Child Support Services) restructured (Children's Disabilities Team transferred)
- School Attendance Strategy launched, Behaviour and Attendance Group re-established, attendance figures for primary phase in line with national
- School organisation – published statutory proposals for amalgamation of Copnors and change to City Boy's to co-education. School Adjudicator approved Copnor. Decision on City Boys' 14 July

## Areas that need watching

- Getting Requires Improvement (RI) schools to Good or better - Schools 'stuck' at RI; some 'good' schools coasting
- Monitor capacity required to deliver implementation of SEND reforms over next 3 years
- Analysis of key stage results leading to warning notices
- Implementation of the home to school transport assistance policy
- School sufficiency programme on track, but budget pressure of £0.5m
- Academy transfers for Miltoncross, Priory and Charles Dickens by Sept 2014; Newbridge, Isambard Brunel Junior, City Boys' and Stamshaw Junior to follow
- Future pressure on secondary school places – workshops and 1:1 meetings held with Heads to consider expansion

## Areas requiring improvement

- Vulnerable schools, 3 in particular of concern to the LA; two schools with warning notices - one secondary and one Junior
- Plan in place to improve child minding quality – settings review to monitor progress
- Review and remodel SEN provision, including special and resourced provision – overseen by SEN Strategy Group
- Pressure on Year R and Year 3 places for Sept 2014 and 2015
- Reducing the proportion of young people who are not in education, employment or training (NEET)
- Improving secondary school attendance



# Revenues and Benefits

Key Items  
for  
reporting

Local Tax and  
Benefits

Welfare  
Reform

Efficiency  
Savings

Page 213

## Highlights

- Overall, a good first quarter, with key measures achieved and customer satisfaction at a respectable level. This continues to be a remarkable performance considering the service has seen staff reductions of over 33% and work increases of over 20% since 2009.

## Areas that need watching

- Single Fraud Investigation Service – transfer of work and potentially staff will occur in September 2015. Work has started on preparing for this change.
- Universal Credit introduction in Portsmouth has been postponed, with no planned date currently known.

## Areas requiring improvement

- Work is in progress to identify how 2015/16 savings will be achieved. This savings requirement will place severe pressure on Housing Benefit subsidy and income
- Government has stated it will not provide funding for Local Welfare Assistance from April 2015. Work is in progress on a matched funding bid with EC Roberts to provide some level of support.

# Corporate Assets, Business and Standards

Key Items  
for  
reporting

Regulatory  
Services

Housing  
Development,  
Improvement  
and  
Adaptation

Asset  
Portfolio  
Development

Employment,  
Learning and  
Skills

## Highlights

- The disposal of Drummond House and associated car park, bringing £2.2m of capital, and enabling the regeneration of this area and further student accommodation to be built
- Success in facilitating the Ben Ainslie Racing development of the Camber as America's Cup challenge base
- New income as a result of rent reviews of investment properties and Primary Authority agreements with businesses
- A pro-active approach to housing standards means we can now license and inspect over 2000 more Houses in multiple occupation (HMOs)
- Good progress on the new contracts to support people into work, ie. the NEET contracts with Barnados is on target for recruitment of participants and outcomes, and people have already obtained jobs as a result of the Community Work Placements contract with G4S started in June.

## Areas that need watching

- High demand and officer availability for the Environmental Health Food and Pollution Control teams, especially over busy summer months
- Progress against income targets for service teams such as Employment, Learning and Skills, PCMI manufacturing and Pest Control.

## Areas requiring improvement

- The work on developing the use of assistive technology the newly drafted ICU business case has not yet resulted in an increase in Telecare users
- With less dedicated officer resource, complaints about age restricted product sales and illicit tobacco are increasing. A recent value for money review on Under Age Sales training has generated options to reverse this trend
- A review of Enterprise Centres identified the need to review their purpose, contribution to the economy and income generating potential. Work on the action plan has begun and is part of the improvement aims within the service Business Plan.

# Housing and Property Services

**Key Items  
for  
reporting**

**Maintaining  
council  
operational  
buildings**

**Management  
and  
maintenance  
of HRA stock**

**Project  
management  
and design of  
council  
projects**

**New house  
build**

## Highlights

- Somerstown Central build completed 6 months ahead of schedule. Now passed to operational management for fitting out and occupation.
- Remodelling and refurbishment of Tweed Court sheltered accommodation commenced 3 months ahead of schedule in Q1

## Areas that need watching

- Housing Revenue Account (HRA) forecast to be in deficit over the next three years – it should be noted that any further budget decisions that require the HRA to assist the General Fund in meeting any future savings will result in balances falling below the minimum level, which will require a corresponding reduction in the cost of managing and maintaining it's stock, to the detriment of the HRA's viability.

## Areas requiring improvement

- Long term budgeting against asset management data will be developed further over the next two plan periods.

# Transport and Environment

## Key Items for reporting

### Contracts

### Sustainable infrastructure development

### Parking

### Energy/ sustainability

### Leisure/ green space

### Highways design

### Highways PFI

### Coastal and drainage

## Highlights

- Budgets are on target
- The Office transformation project, aimed at moving the service from the Brunel wing, improving data management, improving archiving and increasing mobile and flexible working, is going very well and will meet its deadline for moving of the end of 2014
- Procurement of new Professional services Framework progressing well – interviews in next quarter.

## Areas that need watching

- The environmental enforcement function moved from the service on 1<sup>st</sup> July. T&E needs to ensure that the standards of enforcement are maintained or improved to ensure that other public realm KPIS and targets are achieved
- The 3GS pilot was both agreed and cancelled by Members in Q1. This will now be led by the single unfirmed service
- Adequate cover and skills in place for maternity, long term sickness or officers leaving posts

## Areas requiring improvement

- Relationships with other Services need to improve to ensure clear communication, no repetition of works and all officers are reporting consistently

# City Development and Cultural Services

Key Items  
for  
reporting

Planning  
and place  
making

Seafront  
development

Skills and  
employment

Business  
growth

Cultural  
activities

## Highlights

- Visitor economy and city brand – secured the Heritage Lottery Fund (HLF) bid for a £4.1m bid to completely transform the museum to tell the D-Day story for museum visitors in the 21<sup>st</sup> century
- Regeneration and Business Growth – Sir Ben Ainslie has been granted Government funding to build a base for his America's Cup team to be built in Portsmouth and planning permission was agreed for development at the Camber. The project is expected to create 90 jobs. In addition, work has started on developing possible qualifier events to be hosted in Portsmouth. The project will continue to grow Portsmouth's global reputation as a centre of marine and maritime excellence but will also deliver a real sporting and economic boost to the UK.
- Plans to regenerate the Hard interchange have taken a step forward following the granting of planning permission for the site. Following this, the detailed design process will begin and it is hoped work will start onsite in early 2015.
- Visitor economy events – successful events summer programme continues to support our target of £9m visitors by 2017. The highlight of the programme which was hailed as a success was the 3 D-Day 70 commemorations in June, attended by Princess Anne, Commodore-in-Chief of the Royal Navy in Portsmouth, and an estimated 200,000 visitors attended the event.

## Areas that need watching

- Income generation continues to be explored – opportunities for the Big Screen, Wedding offer development across the cultural estate, sponsorship with the corporate team and targets established.
- Culture/PRED budgets – the projected year end outturn position indicates that both expenditures will be within budget. The forecasted variances between services in the portfolio will continue to be managed during the remainder of the year to achieve a minimal variance in budget.
- Development management – Planning application and appeals have surged in Q1 due to economic recovery. Urgent review required of resource requirements moving forwards to continue to provide a quality service.

## Areas requiring improvement

- Realising current savings targets whilst delivering long term sustainability of the services to deliver the strategic outcomes for the city – exploration of national and international funding/shared services/ partnership working/ alternative delivery models and income generation continue to be explored.

# Health, Community Safety and Licensing

## Key Items for reporting

Getting the best start in life

Helping people to be ready, willing and able to work

Building an environment with healthier, safer and stronger and resilient communities

Encouraging healthy lifestyles and healthier environments

Maintaining maximum independence and dignity in later years

Managing change

Population healthcare advice

## Highlights

- Considerable progress being made across all service priorities
- Award for alcohol harm reduction work of note

## Areas that need watching

- Majority of health work areas are highlighting concerns (varying reasons) notably capacity

## Areas requiring improvement

- Staff capacity is now a significant issue and is likely to have an overall impact on transformation
- Council wide plan to develop cultural shift so that health is recognised and owned as a key driver for transformational change
- Developing primary and secondary care networks to support system change

# HR, Legal and Performance

## Key Items for reporting

Develop an approach to the workforce and its development

Reduction in sickness absence

Ensure strong consistent and dynamic performance management

Support vulnerable children and families

Drive better value from our contracts including reducing indexation

Develop a robust approach to traded services and fees and charges

## Highlights

- Expecting to achieve annual target, representing a reduction in staff absence
- On target to complete 100% of audit plan
- On target to achieve 95% compliance expenditure against contracts
- Catalogue of traded services to schools developed and contracts agreed with schools; further work started on an alternative business model to provide educational services to schools.

## Areas that need watching

- Learning and Development Review scheduled for completion Sept 2014
- 71% child protection cases meeting processing time target of 26 weeks, and this is continuing to improve.

## Areas requiring improvement

- Contract review work progressing well, but original estimate of savings proving to be unrealistic

# Customer, Communication and Democratic Services

## Key Items for reporting

Streamline delivery, achieving channel shift through the web project

Information governance

General election 2015

Individual electoral registration

## Highlights

- Web project on target
- Individual Electoral Registration implementation underway

## Areas that need watching

- Further report on web project to SDB to agree future prioritisation due Sept 2014
- Timetable for General Election 2015 to be agreed by Returning Officer Sept 2014

## Areas requiring improvement

- City Helpdesk waiting time currently excessive for Revenues and Benefits enquiries – can reach 50 mins at peak times – discussions with service to provide additional resources
- Only 83% of FOI requests are being met within the 20 working day time period – consideration is being given to service requirements following retirement of key staff member, and whether additional resources required.



# Financial Services

## Key Items for reporting

Strong corporate financial health and resilience

Maximising the resources available to the council

Maintaining the resilience of Financial Services operations with reduced resources

Reducing the costs of financial services – service reductions in non-core activities

Supporting the organisation/ clients to deliver their savings targets

Strong financial governance

Strong public accountability

To maintain a robust financial management system

## Highlights

- MTFs, Budget and Capital programme for 2014/15 all approved
- Approved Treasury Management policy, limited to investment grade financial institutions, with no loss of investments over the period. Investment returns currently slightly exceeding 3 months LIBOR
- Robust financial models for investment projects under development, and support provided to modernisation of Highways PFI contract

## Areas that need watching

- Investment strategy now amended to include wider range of investments

## Areas requiring improvement

# Information Services

## Key Items for reporting

Information system availability

IT incident resolution

Public Services Network certification

## Highlights

99% system availability to staff in the working day is being met

Achieving 94% of service level agreement requirements in respect of incident resolution – prioritisation given to meet services with greatest impact

Public Service Network (PSN) certification currently achieved

## Areas that need watching

- Consideration needs to be given to ability to meet target for system availability as budget cuts are considered, one implication of which could be the need to carry out systems maintenance within the working day
- Working to maintain PSN certification

## Areas requiring improvement



**Title of meeting:** Governance and Audit and Standards Committee

**Date of meeting:** 26 September 2014

**Subject:** Review of polling districts and polling places

**Report by:** Electoral Services Manager

**Wards affected:**

**Key decision:** No

**Full Council decision:** Yes

---

**1. Purpose of report**

To detail the outcomes of the review of polling districts and polling places recently undertaken and to invite members to consider the recommendations made.

**2. Recommendation**

**That the changes recommended in paragraphs 5.2 to 5.11 are approved and implemented on publication of the 2015 Register of Electors.**

**3. Background**

- 3.1 The Council is required under section 18 of the Representation of the People Act 1983 (as amended) to divide the area into polling districts and to designate a polling place for each polling district. These regulations also require the Council to conduct periodic reviews of polling districts and polling places.
- 3.2 The Electoral Registration and Administration Act 2013 introduced a revised schedule for conducting periodic reviews and required a review to be completed within the period 1 October 2013 and 31 January 2015.
- 3.3 The Council completed a comprehensive review of polling districts and polling places in 2011.
- 3.4 A polling district is a sub-division of an electoral area (ward) into a smaller geographical unit comprising a number of streets/houses.
- 3.5 A polling place is a building or area in which polling stations will be designated by the Returning Officer.

- 3.6 A polling station is defined as the actual room or building where the poll is held.
- 3.7 The local authority is responsible for dividing each electoral area into polling districts and for designating polling places. The Returning Officer is responsible for defining the location of polling stations within a polling place, such as the room or part of the building.
- 3.8 The duties of the council in the review process are two-fold:
- a) To ensure that all the electors in the constituency have such reasonable facilities for voting as are practicable in the circumstances
  - b) To seek to ensure that so far as is reasonable and practicable, the polling places they are responsible for are accessible to all electors, including those who are disabled, and when considering the designation of a polling place, must have regard to the accessibility needs of disabled persons
- 3.9 When designating polling places there are practical limitations such as the availability and suitability of venues that must be considered.
- 3.10 The consideration of changes to constituency boundaries or city council ward boundaries was not in the scope of the review.

#### **4. Representations received**

- 4.1 The Returning Officer submitted proposals for substantial changes to the polling districts and polling places (usual polling stations) in respect of St Thomas Ward and reconfiguration of the polling district boundaries in the northern part of Charles Dickens Ward. In addition, a polling place amendment is proposed to both Milton and Paulsgrove Wards.
- 4.2 A summary of proposed changes submitted by the Returning Officer as part of the review are shown in Appendix A.
- 4.3 One further representation was received and a copy of which is at Appendix B. The submission can be summarised as follows:
- a) Councillor Hugh Mason did not propose any changes at the current time for St Jude Ward.

#### **5. Outline of recommendations**

- 5.1 Having considered each of the representations received, the following recommendations are made:
- 5.2 That the polling districts in St Thomas Ward are redrawn to reflect the polling places now available and will be configured to include:
- a) A new polling district AA incorporating the western part of the current polling district and extending to include the south-western part of current polling

district AC and the eastern part of polling district AB. The polling place for this proposed polling district is Portsmouth City Museum.

- b) A new polling district AC incorporating the northern parts of the current polling districts AC and AD, plus Edgbaston House from polling district AE. The polling place for this proposed polling district is Somerstown Central.
- c) A new polling district AD incorporating the eastern parts of the current polling districts AA and AC and southern part of polling district AD. The polling place for this proposed polling district is Cottage Grove Primary School.

5.3 The existing arrangements for St Thomas Ward are shown at Appendix C.

5.4 The proposed arrangements for St Thomas Ward are shown at Appendix D.

5.5 That the Frank Sorrell Centre is designated as the polling place for polling district EE (Milton Ward). The facility is spacious, fully accessible and has ample parking available. This is to replace Cumberland Infant School.

5.6 That the polling districts GA, GB and GF in the northern part of Charles Dickens Ward are redrawn so that:

- a) The eastern part of polling district GA is incorporated into polling district GF.
- b) The northern part of polling district GB is incorporated into polling district GF.
- c) The polling place for polling districts GA and GF is designated as the Charles Dickens Activity Centre

5.7 The changes to Charles Dickens Ward will improve the balance of electorate allocated to each polling place and provide more convenient access for residents in the northern part of the current polling district GB by reallocation to polling district GF.

5.8 That Somerstown Central is designated as the polling place for polling district GD (Charles Dickens Ward). This new facility is modern, spacious, fully accessible and more conveniently located within the polling district. This is to replace St Luke's Church Hall.

5.9 The existing arrangements for Charles Dickens Ward are shown at Appendix E.

5.10 The proposed arrangements for Charles Dickens Ward are shown at Appendix F.

5.11 That the polling place for polling district LF be designated as the Hillside and Wymering Centre. Under the previous scheme, the entire polling district was designated as the polling place to allow flexibility during the reconstruction of the former Hillside Youth Centre site. Now that the new facility is fully operational it is appropriate that this be formally designated as the polling place.

5.12 A full schedule of polling districts and polling places incorporating these recommendations is set out under Appendix G.

**6. Equality impact assessment (EIA)**

6.1 The review of polling districts and polling places takes into consideration matters regarding accessibility as detailed in paragraph 3.8 and the recommendations made in this report are in line with this requirement.

6.2 When designating polling places there are also practical limitations such as the availability and suitability of venues that must be considered.

6.3 A preliminary Equalities Impact Assessment has been completed.

**7. Head of legal services' comments**

All legal issues are dealt with in the body of the report

**8. Head of finance's comments**

The above changes are not considered to have any material financial affect to the service. Any additional costs arising from these changes can be met from the existing budget.

.....  
Signed by:

**Appendices:**

Appendix A	Summary of Returning Officer's proposals for changes to polling districts and polling places
Appendix B	Copies of representations received
Appendix C	Map showing the existing arrangements for St Thomas Ward
Appendix D	Map showing the proposed arrangements for St Thomas Ward
Appendix E	Map showing the existing arrangements for Charles Dickens Ward
Appendix F	Map showing the proposed arrangements for Charles Dickens Ward
Appendix G	Proposed schedule of polling districts and polling places

**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:

<b>Title of document</b>	<b>Location</b>
Notice of Review of Polling Districts and Polling Places	Election Services Office
Review of Polling Districts and Polling Places - Returning Officer's Proposals	Election Services Office

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

.....  
 Signed by:

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## Summary of Returning Officer's proposals for changes to polling districts and polling places

<p><b>St Thomas</b></p> <p>That the polling districts in St Thomas Ward are redrawn to reflect the polling places now available and will be configured to include:</p> <ul style="list-style-type: none"> <li>• A new polling district AA incorporating the western part of the current polling district and extending to include the south-western part of current polling district AC and the eastern part of polling district AB. The polling place for this proposed polling district is Portsmouth City Museum.</li> <li>• A new polling district AC incorporating the northern parts of the current polling districts AC and AD, plus Edgbaston House from polling district AE. The polling place for this proposed polling district is Somerstown Central.</li> <li>• A new polling district AD incorporating the eastern parts of the current polling districts AA and AC and southern part of polling district AD. The polling place for this proposed polling district is Cottage Grove Primary School.</li> </ul>
<p><b>Charles Dickens</b></p> <p>That polling districts GA, GB and GF in the northern part of Charles Dickens Ward are redrawn so that:</p> <ul style="list-style-type: none"> <li>• The eastern part of current polling district GA is incorporated into polling district GF.</li> <li>• The northern part of current polling district GB is incorporated into polling district GF.</li> <li>• The polling place for polling districts GA and GF is designated as the Charles Dickens Activity Centre.</li> </ul>
<p><b>Milton</b></p> <p>It is proposed that the Frank Sorrell Centre is designated as the polling place for polling district EE replacing Cumberland Infant School.</p>
<p><b>Paulsgrove</b></p> <p>It is proposed that the polling place for polling district LF is designated as the Hillside and Wymering Centre.</p>

No changes were proposed for the following wards:

- St Jude, Central Southsea, Eastney & Craneswater, Fratton, Baffins, Nelson, Copnor, Hilsea, Cosham, Drayton & Farlington

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**Representation submission form**  
Review of polling districts and polling places

30 JUL 2014



**Portsmouth**  
CITY COUNCIL

**Review of polling districts and polling places**

Your details

Full Name	HUGH MASON
Organisation (if applicable)	COUNCILLOR
Residential Address	32 CHELSEA ROAD SOUTHSEA POS 1NJ
Postal Address (if different to above)	

Your representation

Which ward does your representation relate to?	ST JUDE
Which polling station(s) does your representation relate to?	-

What is your representation?

While it might be sensible at some stage to reconsider the boundaries of the BC polling district, I do not think that the confusion which would undoubtedly be caused would make it sensible at present.

There are a number of minor inaccuracies on the map of St Jude polling districts (eg 9-13 Warsley Rd, 8 Hamilton Rd & 75-79 Clarendon) but these are well known to the councillors.

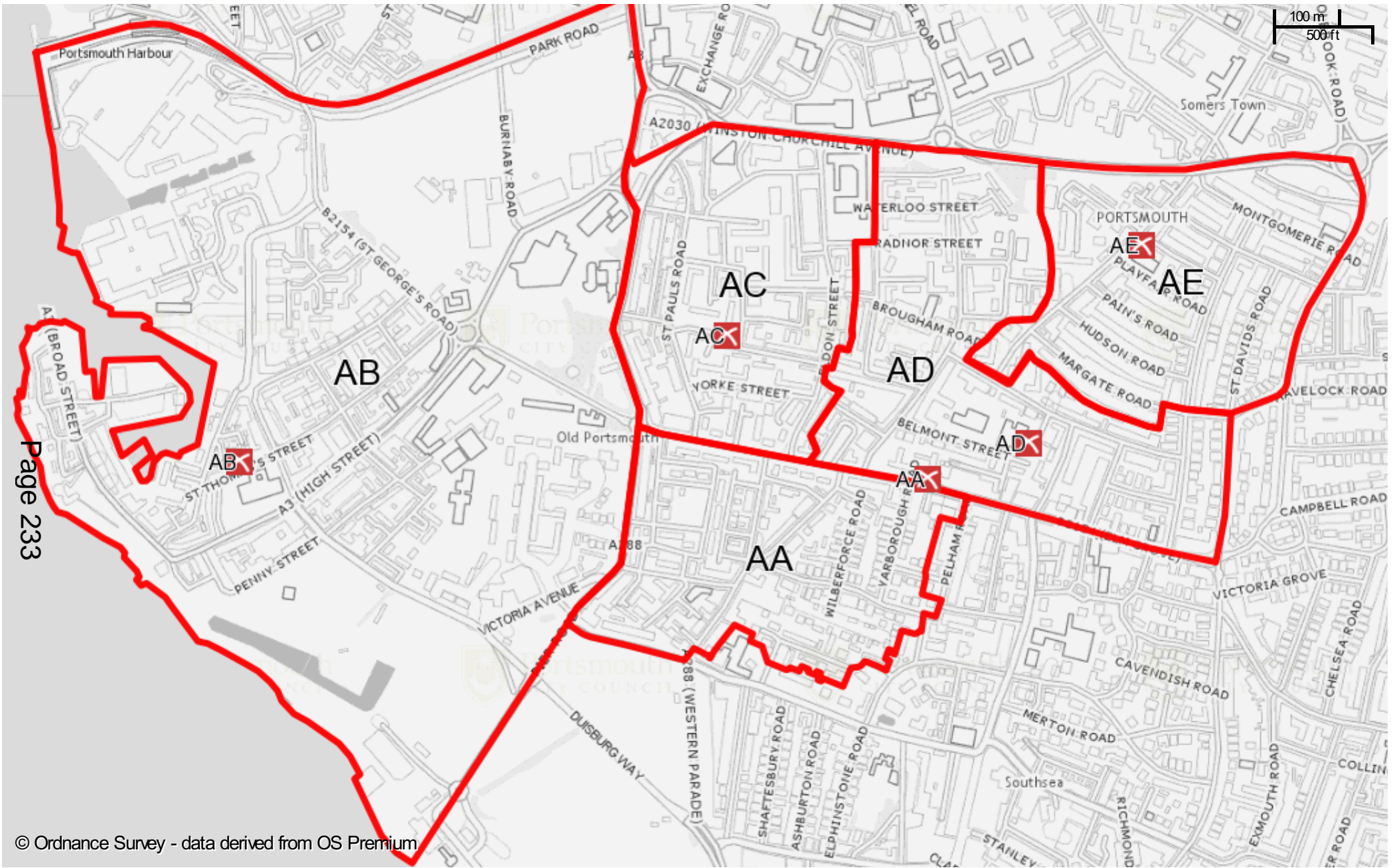
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Signature	Date
	29. VII . 14

Please be aware that responses to this consultation will be published on completion of the review.

**Please return your representation by 5pm, Monday 8 September 2014 to the following address:**  
Election Services, Portsmouth City Council, Civic Offices, Guildhall Square, Portsmouth, PO1 2QR  
or by email to elections@portsmouthcc.gov.uk

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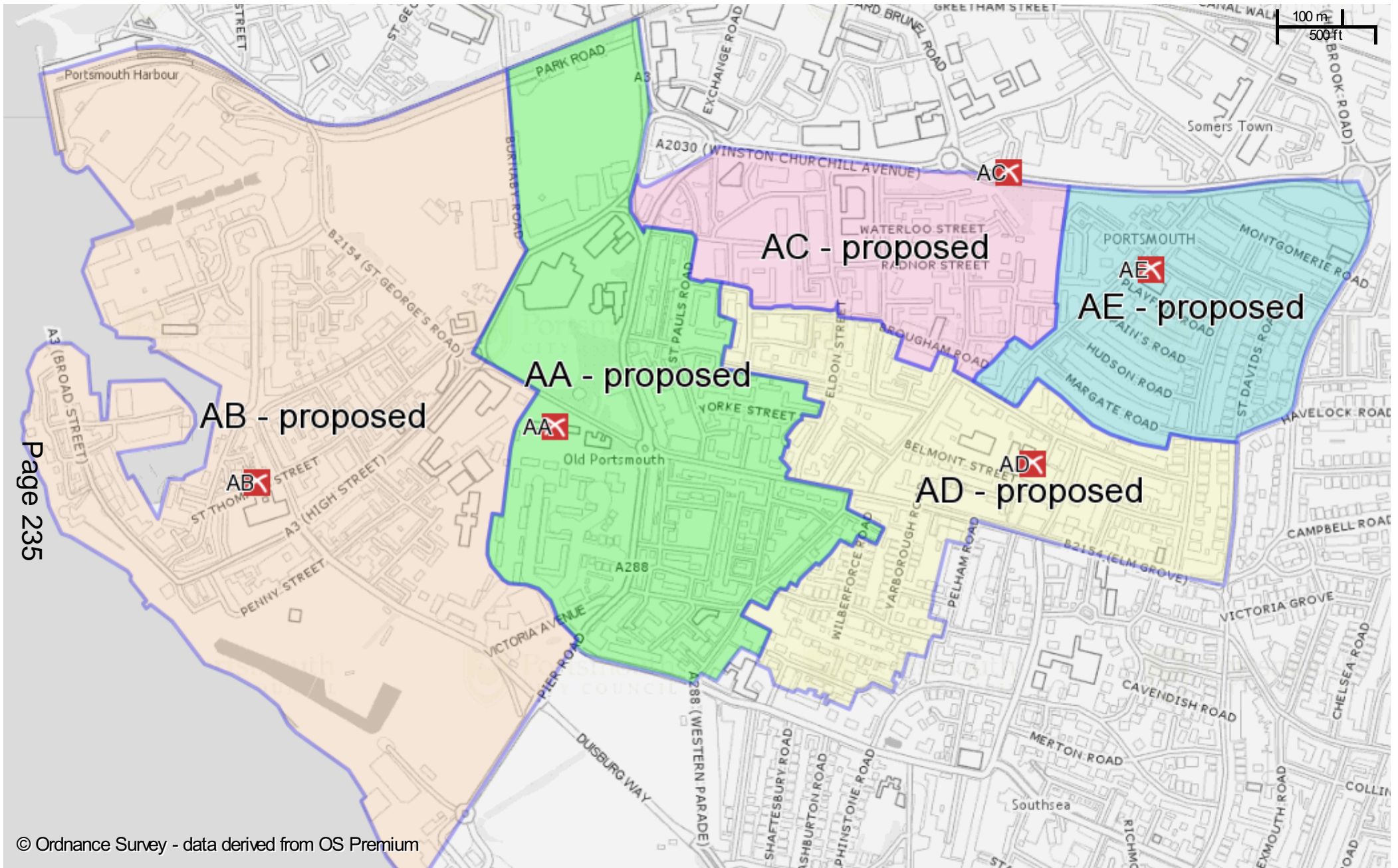
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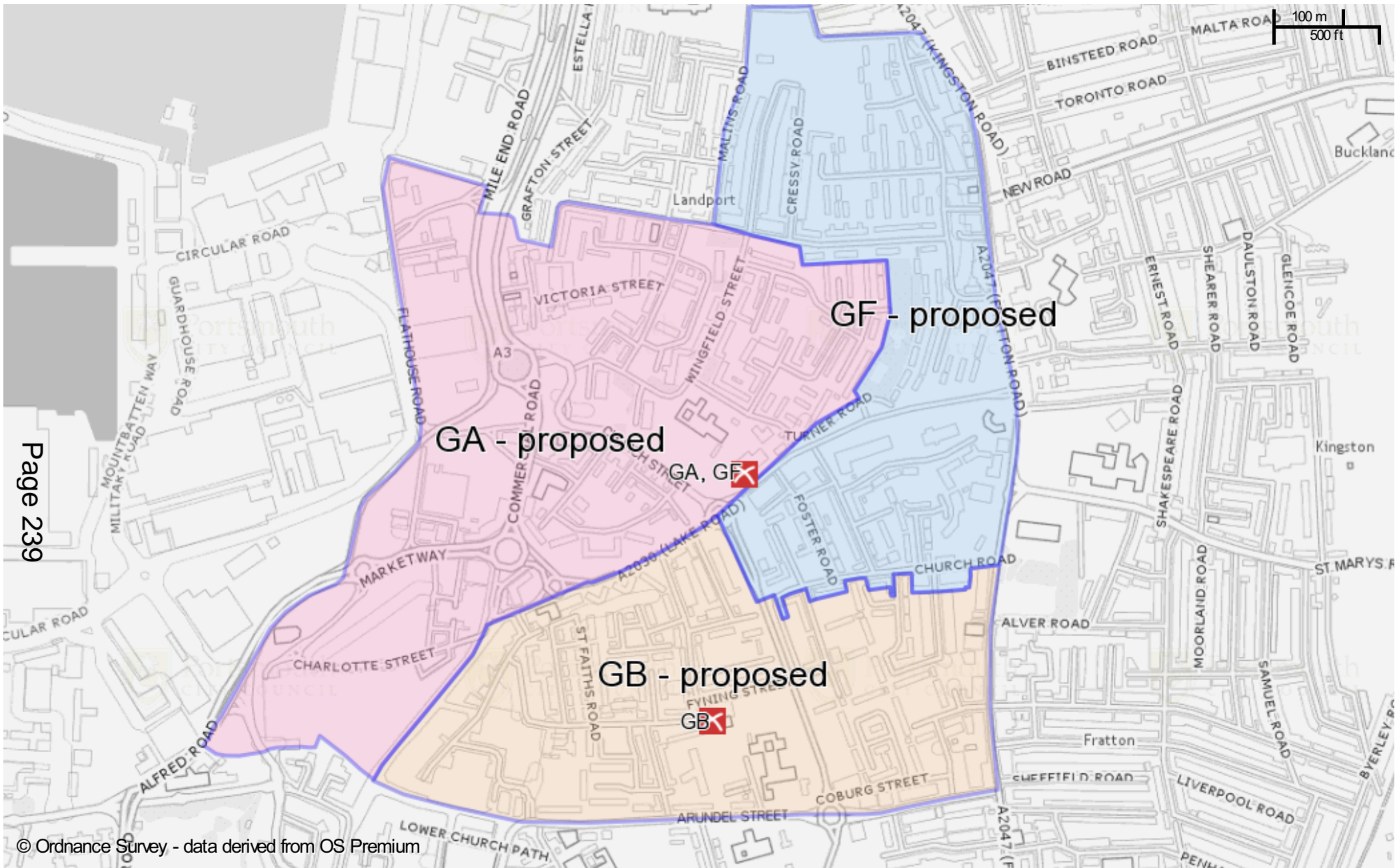
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## Proposed schedule of polling districts and polling places

<b>St Thomas ward</b>		
Polling District	Polling place	Estimated Electorate 2015
AA	Portsmouth City Museum, Museum Road	2,050
AB	Cathedral House, St Thomas's Street	2,250
AC	Somerstown Central	2,050
AD	Cottage Grove Primary School, Chivers Close	2,300
AE	St Peter's Church Hall, Fraser Road	1,600

<b>St Jude ward</b>		
Polling District	Polling place	Estimated Electorate 2015
BA	St Jude's Church, Kent Road	1,400
BB	St Jude's Church, Kent Road	1,650
BC	Wimbledon Park Sports Hall, Taswell Road	1,450
BD	St Jude's Church, Kent Road	1,900
BE	Southsea Infant School, Collingwood Road	2,650

<b>Central Southsea ward</b>		
Polling District	Polling place	Estimated Electorate 2015
CA	Holy Spirit Church Hall, Fawcett Road	3,050
CB	Fernhurst Junior School, Francis Avenue	3,100
CC	Wimborne Junior School, Wimborne Road	1,800
CD	St Margaret's Parish Centre, Highland Road	1,550
CE	Trinity Methodist Church Hall, Francis Avenue	1,700

<b>Eastney &amp; Craneswater ward</b>		
Polling District	Polling place	Estimated Electorate 2015
DA	Craneswater Junior School, St Ronans Road	1,950
DB	St Simons Church Centre, Waverley Road	2,150
DC	Cricket Pavilion, St Helens Field	850
DD	Eastney Methodist Church, Highland Road	2,100
DE	Eastney Community Centre, Bransbury Park	1,450
DF	Cockleshell Naval Community Centre, Henderson Road	1,250

APPENDIX G

<b>Milton ward</b>		
Polling District	Polling place	Estimated Electorate 2015
EA	Christ Church Milton United Reformed Church, Milton Rd	2,450
EB	Meon Junior School, Meon Road	2,650
EC	Milton Park Junior School, Eastney Road	1,550
ED	Wimborne Junior School, Wimborne Road	1,900
EE	Cumberland Infant School, Methuen Road	2,300

<b>Fratton ward</b>		
Polling District	Polling place	Estimated Electorate 2015
FA	Binstead Community Centre, Langley Road	2,250
FB	Newbridge Junior School, New Road	1,850
FC	St Wilfrid's Church, George Street	2,250
FD	Fratton Community Centre, Trafalgar Place	2,300
FE	Penhale Infant School, Penhale Road	2,100

<b>Charles Dickens ward</b>		
Polling District	Polling place	Estimated Electorate 2015
GA	Charles Dickens Junior School, Turner Road	2,150
GB	St Faiths Church, Crasswell Street	2,350
GC	St Johns RC Primary School, Cottage View	1,056
GD	Somerstown Central	2,698
GE	John Pounds Centre, Aylward Street	2,424
GF	Charles Dickens Junior School, Turner Road	1,750

<b>Baffins ward</b>		
Polling District	Polling place	Estimated Electorate 2015
HA	St Albans Church Hall, Copnor Road	1,150
HB	Baffins Community Centre, Westover Road	3,050
HC	The Stacey Centre, Walsall Road	2,750
HD	Langstone Junior School, Lakeside Avenue	2,550
HE	Moorings Way Infant School, Moorings Way	1,850

APPENDIX G

<b>Nelson ward</b>		
Polling District	Polling place	Estimated Electorate 2015
IA	Stamshaw & Tipner Leisure Centre, Wilson Road	1,550
IB	Stamshaw & Tipner Leisure Centre, Wilson Road	1,700
IC	Stamshaw Infant School, North End Avenue	2,200
ID	St Marks Church Centre, Derby Road	1,600
IE	Isambard Brunel School, Wymering Road	1,550
IF	Buckland Community Centre, Malins Road	1,850

<b>Copnor ward</b>		
Polling District	Polling place	Estimated Electorate 2015
JA	St Nicholas Church Hall, Battenburg Avenue	2,100
JB	Lyndhurst Junior School, Lyndhurst Road	1,700
JC	Isambard Brunel School, Wymering Road	2,250
JD	The Wesley Rooms, Copnor Road	2,600
JE	Anchorage Lodge, Sywell Crescent	1,450

<b>Hilsea ward</b>		
Polling District	Polling place	Estimated Electorate 2015
KA	Northern Parade School, Doyle Avenue	2,100
KB	Northern Parade School, Doyle Avenue	1,700
KC	Howard Road Community Centre, Howard Road	2,250
KD	First Church of Christ Scientist, London Road	2,600
KE	St Nicholas Church Hall, Battenburg Avenue	1,450
KF	The Scout Hut, The Ridings	2,100

<b>Paulsgrove ward</b>		
Polling District	Polling place	Estimated Electorate 2015
LA	Highslopes Community Centre, Carlton Road	900
LB	Victory Primary School, Jubilee Avenue	1,250
LC	Paulsgrove Baptist Church, Woofferton Road	2,100
LD	St Michaels Church Hall, Hempsted Road	2,550
LE	Portacabin, Blakemere Crescent	1,200
LF	The polling district is designated as the polling place	700
LG	Watersedge Sports and Social Club, Southampton Road	1,600



## APPENDIX G

<b>Cosham ward</b>		
Polling District	Polling place	Estimated Electorate 2015
MA	Portacabin, Fairfield Square/Hythe Road	1,550
MB	Cosham Baptist Church, Havant Road	2,400
MC	Court Lane Junior School, Hilary Avenue	1,300
MD	St Philips Church Hall, Hawthorn Crescent	3,150
ME	St Peter & St Paul Hall, Old Wymering Lane	2,100

<b>Drayton &amp; Farlington ward</b>		
Polling District	Polling place	Estimated Electorate 2015
NA	St Colman's Church, St Colman's Avenue	1,000
NB	Drayton Institute, Havant Road	2,450
NC	Solent Infant School, Eveleigh Road	2,000
ND	The Sunshine Inn, Havant Road	1,900
NE	Drayton United Church Hall, Station Road	1,550
NF	Court Lane Infant School, Court Lane	1,050
NG	Christchurch Church Hall, London Road	350





<b>Decision maker:</b>	Governance & Audit & Standards Committee
<b>Subject:</b>	Audit Performance Status Report to 26 <sup>th</sup> August 2014 for Audit Plan 2014/15
<b>Date of decision:</b>	26 September 2014
<b>Report by:</b>	Chief Internal Auditor
<b>Wards affected</b>	All
<b>Key decision (over £250k)</b>	No

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## 1. Summary

- 1.1 There is 1 new critical exception highlighted in this report for 2014/15 Audit Plan and 2 from the 2013/14 Audit Plan. Of those two one is an outstanding Critical risk from a 2012/13 audit and Internal Audit will report on the progress of implementing the agreed actions at a later date.
- 1.2 The Annual Audit Plan has been revised to take into account a reduction in Audit resource and changes in priorities and risk. Previously within the 2014/15 plan there were 182 planned Audits, made up of 137 new reviews and 45 follow up audits. There are now 166 planned Audits for 2014/15 made up of 120 new reviews and 46 follow up audits. This has seen a slight overall reduction in coverage of the Audit Universe from 25% to 22%.
- 1.3 Of the 166 Audits, 77 (47%) have been completed or are in progress as at 26<sup>th</sup> August 2014. This represents 23 audits (14%) where the report has been finalised, 11 audits (7%) where the report is in draft form and 43 audits (26%) currently in progress. This is a slightly higher completion of the Audit Plan in comparison to the same period for the last two years.
- 1.4 In addition to the planned audits there are 12 areas of on-going work and 3 of continuous audits which contribute to risk assurance.
- 1.5 Areas of Assurance are shown in Appendix A.
- 1.6 86 days of reactive work have been undertaken to 26<sup>th</sup> August 2014, with 200 days (revised down from 245) set aside in the 2014/15 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 2014/15 to 26<sup>th</sup> August 2014 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 2014/15 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 30 January 2014 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 2014/15 to 26<sup>th</sup> August 2014.
- 4.2 That Members note the highlighted areas of control weakness for the 2014/15 Audit Plan.

### **5. Audit Plan Status 2014/15 to 26<sup>th</sup> August 2013**

#### **Revision of Annual Audit Plan**

- 5.1 Since the last meeting one Principal Auditor has resigned from post and due to budgetary pressures will not be replaced. A 2<sup>nd</sup> Principal Auditor is shortly due to go onto maternity leave, this position will be covered by a Trainee Accountant seconded from Financial Services as part of their training. As a result of this and due to changes in priorities and risks the following audits have been removed from the 2014/15 Audit Plan;
- 5.1.1 Children with Disabilities - This audit was included as the Service was due to move reporting location, this has since been delayed and as a result the audit will be deferred until 2015/16.
- 5.1.2 Coroners Inquests - This service is due to transfer under PCC in the late autumn/ winter 2014. The audit will therefore be deferred until 2015/16 when the full impact of activities and responsibilities will be clearer.
- 5.1.3 Selling of Advertising - The post holder duties have transferred to a new officer and therefore this audit will be replaced with a follow-up of the 2012/13 Audit.
- 5.1.4 Pupil Referral Units - Elements of the scope of this audit has synergies with the School Sufficiency Project audit. The Harbour School budget issues are being managed by Finance which should provide the necessary assurance
- 5.1.5 Due to the reduction in resources the annual risk rating scores have been reviewed with the agreement of the s151 Officer. The reviews listed below were at the lowest end of the high risk score and following the scoring review have been amended to medium risk and have therefore been removed from the Plan.
- Business Advice & Intervention
  - Air Quality
  - Attendance Monitoring
  - Working Anywhere
  - Fire Safety

- Local Welfare Assistance
- Parking Strategy
- Seafront Events
- Accommodation & Enabling
- Animal Health
- Business Continuity
- Contract Management
- Portsmouth Children's Trust
- Access Controls
- Use & Management of Assets (the Port)
- The Hard Interchange
- Performance Management

5.1.6 Due to changes in priorities/ risks the following audits/ follow-up reviews have been added to the 2014/15 plan:

- Devonshire Infant & Nursery (audit) - New school purchased SLA
- Public Health Grant (audit) - grant claim verification
- Superconnected City Grant (audit) - grant claim verification
- Debt Recovery (follow-up) - Requested by Head of Service
- Selling of Advertising (follow-up) - Replacing full audit

5.1.7 Due to the resource reduction the number of days allocated to reactive work including investigations has been reduced from 245 to 200.

### **Percentage of approved plan completed**

5.2 47% of the revised Annual Audit Plan has been completed, or is in progress as at 26<sup>th</sup> August 2014, more than the equivalent period last year. Appendix A shows the completed new audits for 2014/15. Appendix B shows the completed follow up audits for 2014/15. This percentage is made up as follows;

- 12 new reviews (7%) where the report is finalised, 10 (6%) in draft form and 39 (24%) currently in progress.
- 11 planned follow ups (7%) where the report is finalised, 1 (1%) in draft form and 4 (2%) currently in progress. A total of 29 exceptions have been followed up within the 11 finalised reports, of these 16 (55%) have been closed leaving 13 (45%) where the risk had not yet been sufficiently mitigated.

5.3 As requested by Members of the Committee a breakdown of the assurance levels on completed audits is contained in Appendix A. Where specific parts of the control framework have not been tested on an area (because it has been assessed as low risk for example) it is recorded as NAT (No Areas Tested) on the Appendix.

5.4 A record of completed follow up audits can be found in Appendix B. This Appendix also breaks down the number of exceptions followed up for each audit and is separated by risk level. An explanation has been provided where agreed actions on high risk exceptions have not yet been completed.

## Reactive Work

5.5 200 days have been allowed for reactive work and investigations in 2014/15 and 90 days have been used to 30<sup>th</sup> August 2014.

5.6 The 90 reactive days were used for:

- 10 special investigations
- 9 items of advice

As well as the following unplanned reviews:

- Pilots National Pension Fund verification of contributions
- Adoption Reform Grant
- Parking Office

## Exceptions

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

- 1 Critical
- 17 High Risk
- 11 Medium Risk
- 3 Low Risk (improvements)

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

	<b>2012/2013</b>	<b>2013/2014</b>	<b>2014/15</b>
<b>% of the audit plan progressed</b>	32%	32%	47%
<b>No. of Critical exceptions</b>	3	2	1
<b>No. of High risk exceptions</b>	16	58*	17
<b>No. of reactive days</b>	162	128	90

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

## On-going Areas

5.9 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 200 days of reactive work)
- Financial Rules waivers
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Audit Commission
- 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
- Compliance with Financial Rules monitoring

### **Continuous Audit Areas**

5.10 The following 4 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

## **6. Areas of Concern**

### **Concerns identified since the last meeting**

6.1 There is one new area of concern (critical exception) 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 the 2013/14 Audit Plan. Actions have been agreed for all three raised exceptions.

#### **6.2 Planning & Building Control (2013/14 Audit)**

6.2.1 The Planning & Building Control audit raised one critical exception relating to work undertaken by the Building Control Surveyor is not checked. This could result in financial loss to the Authority if discounts are being awarded fraudulently or incorrectly. It could also lead to accusations of favoritism towards certain clients. This exception was originally raised during the 2012/13 audit of this area.

6.2.2 The agreed action from the 2012/13 exception was that whilst the department was restructured and a new Building Control Manager appointed calculation sheets would be spot checked by the then Assistant Head of Planning Services. Follow up testing in July 2014 confirmed this had not been completed and it was further agreed that the charge sheet would be reviewed by the now City Development Manager by the 1<sup>st</sup> August 2014.

#### **6.3 Additional Follow-up**

6.3.1 A second follow up of the critical risk exception and three high risk exceptions that remained open has been undertaken. Testing evidence that actions agreed had still not been implemented. In relation to the critical risk, a random sample of building control files were selected to ensure that the fee was accurate and spot checks had been undertaken. Testing was unable to evidence for 10% (3/30 of the files selected) how the fees were calculated, there was no evidence of spot checking on any of the files reviewed.

#### **6.4 Legionella Management (2013/14 Audit)**

6.4.1 The Legionella Management audit highlighted one critical risk exception. During the 2012/13 audit of this area 5 fountains were subject to a risk assessment which highlighted that they were in need of remedial action. Testing identified that no remedial work had been undertaken on 4 of the 5 fountains.

#### **6.5 Agreed Actions**

6.5.1 Jon Crawford (Water Quality Engineer) has confirmed the following:

6.5.2 Southsea Castle, Rock Gardens & Victoria Park Fountains: The recommended remedial work has been completed and all three fountains are now operational

6.5.3 Baffins Pond Fountain: This fountain has been turned off permanently

6.5.4 Legionella sampling will be undertaken on the three fountains noted above. A contractor has been selected and regular sampling of the fountains has commenced.

#### **6.6 Private Foster Carers (2014/15)**

6.6.1 The Private Foster Carers audit highlighted one critical risk exception. Testing identified that 2 of 7 private fostering arrangements sampled had no evidence of a Disclosure & Barring Service (DBS) check being requested. Due to a change in the process the Authority no longer receive a copy of the certificate and are reliant on the private foster carer providing a copy of the return. If the Authority cannot verify the content of the DBS check, children could be put into the care of someone unsuitable for the role.

#### **6.7 Agreed Action**

6.7.1 Admin staff are to be made aware that when a DBS check is requested the reference number is to be recorded on the relevant database file of the private foster carer with immediate effect. This is due to be followed up in October 2014.

#### **6.8 Update on Secondary School reported January 2014**

6.8.1 In July 2013 Internal Audit carried out an investigation into alleged financial irregularities at a Secondary School and as a result of the overall findings the School were issued with a 'Notice of Concern' under the scheme for Financing Schools Section 2.15 jointly by the Section 151 Officer and Director of Children's Services.

6.8.2 The Notice of Concern set out specific actions required by the City Council to be implemented by the Governing Body and the School's senior management team to address concerns raised. A second visit has been carried out by Internal Audit the purpose of which was to ascertain the progress made in relation to those actions and to perform a full audit on the remaining financial activities that were not covered during the initial investigation.

6.8.3 It was identified during this second visit that the majority of actions agreed in the school's action plan were evidenced as having been resolved by resignation, retirement,

or implementation; for example significant progress has been made to resolve the concerns relating to safeguarding of assets, including physical verification and disposal authorisation and obtaining value for money for purchases of IT equipment and general supplies.

6.8.4 Following on from this the full audit, has identified 14 additional high risk exceptions and 1 medium risk exception and the lack of financial management and oversight remains a major cause for concern. Many of the new audit findings which will be reported in detail at the next committee meeting indicate that there is a lack of financial competence across the School and Governing Body. The report is currently being finalised and will be issued shortly.

## **7. Comments on Plan 2014/15 to date**

7.1 The revised plan is on target to be achieved by 31<sup>st</sup> March 2015. Only 1 critical exception has been identified to date for this financial year and the number of high risk exceptions found has decreased compared to previous years.

## **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. Legal consideration**

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.

10.3 The S151 Officer is content with the aforementioned reduction in coverage of the audit universe to 22% and remains satisfied that the revised plan contains adequate and effective audit coverage.

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

## **Appendices:**

Appendix A – Completed audits from 2014/15 Audit Plan  
 Appendix B - Completed follow up audits from 2014/15 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	<a href="http://www.legislation.gov.uk/uksi/2011/817/contents/made">http://www.legislation.gov.uk/uksi/2011/817/contents/made</a>
2 Audit Strategy 2014/15	<a href="http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=2375&amp;Ver=4">http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=2375&amp;Ver=4</a>
3 Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings – reports published online <a href="http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeeld=148">http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeeld=148</a>



APPENDIX A

2014/15 Completed Full Audits

Audit Title	Critical Risk	High Risk	Medium Risk	Low Risk - Improvement	Total Exceptions	Internal Control Environment	Compliance	Effectiveness of Operations	Safeguarding of Assets	Reliability & Integrity	Audit Assurance	Summary	
<b>Children's Social Care - Julian Wooster</b>													
1415-006   CSC - Corporate Parenting	0	0	0	0	0	0	No areas tested (NAT)	0	NAT	NAT	Assurance	No exceptions were raised from this audit. It was found that the Corporate Parenting Strategy follows best practice as set out by the Local Government Association, clearly sets out the governance arrangements. Performance targets are monitored closely by the Corporate Parenting Board and Children's Trust Board and the targets take into account the views of Looked After Children.	
1415-010   CSC - Private Foster Carers	1	3	1		5	1	2	2	NAT	NAT	No Assurance	One critical exception was raised in relation to Disclosure and Baring Service checks. Three high risk exceptions were raised which relate to non-compliance with PCC procedures, incomplete 'capacity to care assessments' and a lack of monthly supervision of private fostering cases	
1415-013   CSC - Family Support Children in need			1		1	0	1	0	NAT	NAT	Limited Assurance	Testing has highlighted an improvement in compliance with procedures in comparison to previous reviews in this area. One medium risk exception has been raised as a result of testing in relation to the fact that there was no evidence that 3/10 Children in need Plans for the sample tested had been signed and copied to all concerned within 5 working days of the planning meeting.	
1415-015   CSC - Social Work Matters	0	0	0	0	0	0	0	0	NAT	NAT	Assurance	No exceptions were raised from this audit. It was found that there is a clear framework within which the project was managed and the programme board was given regular progress updates. The objectives of the project appear to have been met.	
<b>HR, Legal &amp; Performance - Jon Bell</b>													
1415-067   HLP - eBay Account		1	1		1	3	1	0	NAT	1	1	Limited Assurance	A high risk exception was raised as passwords for Paypal and eBay were found to be identical and weak in nature. Medium risk exception raised as whilst procedures are in place they are in need of expansion.
<b>Intergrated Commissioning Unit - Preeti Sheth</b>													
1415-089   ICU - Care homes placements		0	2		2	4	1	2	1	NAT	NAT	Limited Assurance	Two medium risk exceptions were raised, the first is in relation to a lack of communication between Social Workers/ Care Managers and Contract Officers prior to care home reviews. The second is in relation to a lack of evidence of checks of staff turnover and/or financial checks undertaken as part of the monitoring review process.
<b>Transport &amp; Environment - Simon Moon</b>													
1415-111   T&E - Climate Change and Sustainability	0	0	0	0	0	0	0	0	NAT	NAT	Assurance	An audit of the Carbon Reduction Return for 2013/14 was undertaken before submission of the required figures to the Environment Agency. Assurance was given on the accuracy of the return based on the arithmetical checking of the return and sample testing.	



APPENDIX A

2013/14 Audits  
Previously Unreported

Audit Title	Critical Risk	High Risk	Medium Risk	Low Risk - Improvement	Total Exceptions	ICE	CMP	EOO	SOA	R&I	Audit Assurance	Summary
1314-021 Corporate - Consultation				1	1	0	0	1	NAT	NAT	Assurance	One low risk improvement note issued after testing found that only 2 of 6 consultations were documented on the Big List and the 2 on the list had not be completed fully. The Big List is used to record all consultations and their results.
1314-028 Housing Management - Legionella Management	1	3			4	0	3	0	NAT	1	No Assurance	1 critical risk raised because remedial action was not taken in response to risk assessments. 3 high risk exceptions were raised, one due to staff failing to follow legionella testing procedures, one due to a failure to correctly document actions during an outbreak and finally because some staff had not received essential training
1314-029 Housing Management - Asbestos Management		1			1	0	0	NAT	NAT	1	Limited Assurance	1 high risk exception raised as the management information in relation to asbestos removal was found to be inaccurate.
1314-042 Corporate Assets & Business Standards - Houses in Multiple Occupation		3			3	0	NAT	0	3	NAT	Limited Assurance	3 high risk exceptions raised, one as the numbering system for the allocation of licences could not be relied upon, aone because there are no reconciliations carried out on income received has been banked and finally because the system in use does not allow for direct reporting of refunds and write offs
1314-089 - Customer, Community & Democratic Services - Building and Planning Fees	1	3	2	3	9	1	4	4	0	NAT	No Assurance	One new medium risk and one new low risk exception were highlighted. One critical risk relating to the review of the Building Control Surveyor's work, 3 high risk, one medium risk and one low risk exceptions previously raised in the 2012/13 audits were found to still be open and had not had their agreed actions completed.

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APPENDIX B

<b>2013/14 Audits Followed Up - High Risk Exceptions</b>	<b>High Risk Open</b>		<b>High Risk Closed</b>		<b>High Risk Total</b>	<b>Comments</b>
<b>Audit Title</b>						
F1314-015   Financial Services - Controlled Stationery	2	100%	0	0%	2	The controlled stationery process is to be reviewed to include guidance on chasing receipt acknowledgement memos that have not been returned and future reports will now be retained. The second high risk exception was for informaion only and reported on in the 2013/14 Performance Development Review and Mandatory Training audit.
F1314-024   Housing Management - Security	1	100%	0	0%	1	Due to a system upgrade the facility to complete the agreed action was not available. Reports are being rebuilt in conjunction with IS and software provider
F1314-031   Housing Management - Sheltered Housing Service	0	0%	2	100%	2	
F1314-035   Housing Management - Sub letting prevention	0	0%	2	100%	2	
F1314-050   Adult Social Care - Residential and Day Centres self assessments	1	50%	1	50%	2	The high risk exception that has not been addressed was due to some purchase orders not being raised in advance. The reason given behind this is that these are usually for spend on repairs and maintenance of items and the units do not have any idea how much these will cost until the company has been out to do the work and have then invoiced PCC. Action agreed is that purchase orders will be raised in advance even if they are with a nominal amount.
F1314-056   HR, Legal & Performance - Gifts and Hospitality	1	100%	0	0%	1	Agreed action to highlight and take action on non compliant gifts was not fully implemented. Process to identify non compliance now working. City Solicitor to keep a log of actions taken from now on.
F1314-076   Children's Social Care & Safeguarding - Kinship Policy	0	0%	1	100%	1	
F1314-079   Children's Social Care & Safeguarding- Foster Placements and residential care self assessments	1	100%	0	0%	1	The high risk exception that has not been addressed related to Information Governance training. 6 casual staff transferred to permanent in April 2014 and had not as at 28/5/14 carried out this training. Unit Manager agreed that staff will do this training by the end of November 2014.

APPENDIX B

**2013/14 Audits Followed Up - High Risk Exceptions - Cont**

F1314-080   Children's Social Care & Safeguarding- HR Safer recruitment Childrens Services	2	67%	1	33%	3	One high risk exception that has not been addressed relates to Safer Recruitment Training. Some staff had booked onto the course but had not attended and some staff had not booked onto the course at all. The Team Leader Business Support is responsible for chasing these staff members to ensure that they attend the course. The Head of Children's Social Care set out his expectation that staff should have done this training by the end of June 2014. The other issue related to interview notes not being returned to Human Resources who will chase these but are not always successful in getting them returned by the service.
F1314-138   Financial Services - External Bailiffs	3	100%	0	0%	3	Due to the implementation of the new contract agreed actions have been delayed. Quarterly contract monitoring to commence in August 2014 and the agendas of the meetings will be retained. A reconciliation of accounts held with company A was undertaken on 4 August 2014. Monthly STATs will be reviewed to ensure that all requested information is provided.
1213-032   Revenues & Benefits - Debt Recovery	0	0%	1	100%	1	
<b>Grand Total</b>	<b>11</b>	<b>58%</b>	<b>8</b>	<b>42%</b>	<b>19</b>	

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**2013/14 Audits Followed Up - Medium Risk Exceptions**

Audit Title	Medium Risk Open		Medium Risk Closed		Medium Risk Total
F1314-031   Housing Management - Sheltered Housing Service	0	0%	3	100%	3
F1314-035   Housing Management - Sub letting prevention	0	0%	1	100%	1
F1314-050   Adult Social Care - Residential and Day Centres self assessments	1	100%	0	0%	1
F1314-056   HR, Legal & Performance - Gifts and Hospitality	0	0%	1	100%	1
F1314-079   Children's Social Care & Safeguarding - Foster Placements and residential care self assessments	0	0%	1	100%	1
F1314-138   Financial Services - External Bailiffs	1	50%	1	50%	2
<b>Grand Total</b>	<b>2</b>	<b>22%</b>	<b>7</b>	<b>78%</b>	<b>9</b>

**2013/14 Audits Followed Up - Low Risk Exceptions**

Audit Title	Low Risk Open		Low Risk Closed		Low Risk - Improvement Total
F1314-031   Housing Management - Sheltered Housing Service	0	0%	1	100%	1
F1314-050   Adult Social Care - Residential and Day Centres self assessments	0	N/A	0	N/A	0
<b>Grand Total</b>	<b>0</b>	<b>0%</b>	<b>1</b>	<b>100%</b>	<b>1</b>

APPENDIX B

**2013/14 Audits Follow Up - All Exceptions**

Audit Title	Original Number of Exceptions	% Open	% Closed
F1314-015   Financial Services - Controlled Stationery	2	100%	0%
F1314-024   Housing Management - Security	1	100%	0%
F1314-031   Housing Management - Sheltered Housing Service	6	0%	100%
F1314-035   Housing Management - Sub letting prevention	3	0%	100%
F1314-050   Adult Social Care - Residential and Day Centres self assessments	3	67%	33%
F1314-056   HR, Legal & Performance - Gifts and Hospitality	2	50%	50%
F1314-076   Children's Social Care & Safeguarding - Kinship Policy	1	0%	100%
F1314-079   Children's Social Care & Safeguarding - Foster Placements and residential care self assessments	2	50%	50%
F1314-080   Children's Social Care & Safeguarding- HR Safer recruitment Childrens Services	3	67%	33%
F1314-138   Financial Services - External Bailiffs	5	80%	20%
1213-032   Revenues & Benefits - Debt Recovery	1	0%	100%
<b>Grand Total</b>	<b>29</b>	<b>45%</b>	<b>55%</b>

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<b>Decision maker:</b>	Governance & Audit & Standards Committee
<b>Subject:</b>	Risk Register July 2014
<b>Date of decision:</b>	26 <sup>th</sup> September 2014
<b>Report by:</b>	Chief Internal Auditor
<b>Wards affected</b>	All
<b>Key decision (over £250k)</b>	N/A

---

## 1. Summary

- 1.1 Since the new Risk Policy has come into force there have been three reviews of significant risks; November 2013, March 2014 & July 2014,

## 2. Purpose of report

- 2.1 This report is to update Members of the Governance & Audit & Standards Committee on the current significant risks facing PCC and mitigating actions.

## 3. Recommendations

- 3.1 It is recommended that Members of Governance & Audit & Standards Committee note the risks and mitigation.

## 4. Background

- 4.1 Based on their drivers and impacts, risks have been categorised into the following themes:

- Environmental
- Financial
- Legal & Compliance
- People & Processes
- Missed Opportunities

- 4.2 There are 43 High risks under these headings with the most significant risks being:

### 4.2.1 Environmental

- Lack of capacity cemeteries/ changing community needs
- Not reducing usage or costs of energy and limited energy coming into the city by 2018

### 4.2.2 Financial

- Impacts of budget cuts across the board leading to loss of skilled workers, loss of staff resource/ reduced capacity, tip over point due to insufficient capacity resulting in cessation of service/ service failure, unsustainable services & failure to adequately maintain assets.

- Services reporting at being at the point where further cuts could mean services would no longer be viable include emergency planning, HR and Legal & Performance (in particular legal services for child protection).
- A further issue is that continually driving down costs such as domiciliary care is reaching the point where it may no longer be sustainable as businesses may not be able to compete with other employers at low levels of pay.

#### 4.2.3 Legal & Compliance

- Pressure of Government/ Legal requirements, both new and existing, which along with budget cuts leaves the Authority vulnerable to not meeting certain statutory obligations. Areas of particular vulnerability include emergency planning, adult social care, children's safeguarding, data archiving and provision of school places.

#### 4.2.4 People and Processes

- Areas of vulnerability include inter agency communications especially around anti-social behaviour issues and not engaging with the third sector; working with resilience forums to ensure a guaranteed supply of fuel in emergency planning; schools not meeting attainment targets and project management not delivering.

4.3 A key part of good risk management includes challenge on the risks themselves and mitigation. The risk register was compiled from information supplied by Heads of Services and moving forward, the intention is to link risk and performance more closely. At the first review of quarterly service performance, the risks and actions to mitigate the risks were reviewed before going to SDB for further review by them and Strategic Directors individually with their relevant services.

4.4 The Risk Register (Appendix A) does not contain specific project risks which are managed by the relevant Project's Boards and Corporate Programme Board; neither does it contain specific litigation risks as these are reported to the Resources Portfolio Holder.

### 5. **Equality impact assessment (EIA)**

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

### 6. **Legal implications**

6.1 The approach proposed will provide an appropriate framework for the management of legal risk.

### 7. **Head of Finance & S151 Officer Comments**

7.1 There are no immediate financial implications arising from the recommendations contained within this report.

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

**Appendices:**

Appendix A Risk Register by Service

**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
Risk Management Policy	PolicyHub

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## Appendix A - Risk Register 2014/15 By Service July 2014

01/07/2014 (updated 3/9/14 final)

Ref	Activity	Drivers	Service	Theme	Threats	Assurances	Risk Level as at July 2014	Triggers/ When is this a risk?	CURRENT SIGNIFICANT RISK
A PORT Martin Putman									
AA1	Revenue	Making a profit, Multiuser port	Port	Financial	Activities and outcomes that have a direct impact on the Ports ability to generate income e.g. loss of Ferry Operator, Loss of Non ferry operator customers, Lack of funding; Macroeconomic downturn	awareness of economy/ exchange rates, port users meeting, operator management meetings, strategy meetings (pricing)- maintain good working relationship with customers; strategic planning strong relationships with Members, good communications- ISO 9001 Integrated management system monitoring and measurement process.	Medium	Could happen at any time if a major user were to go bankrupt for example or changed or cut routes. Impact would be significant	Yes
AB1	Maritime	Environmental, terrorism, disease	Port	Environmental	Activities and operations which take place between the Port infrastructure and the limits of the Competent Harbour Authority. Working in liaison with other stakeholders such as QHM, Cruise/Ferry operators Emergency Services and other Statutory Bodies. Maritime incident such as fire, collision or grounding or blocking of the harbour; terrorist alert on a vessel approaching the port, approaching vessel has reported contagious illness has broken out on board, environmental incident in the harbour.	Port marine safety code and annual audit by Marico. Liaison by harbour master and police, involvement with port facilities security officer. Advise port health immediately who will make appropriate decisions. Port marine safety code controls. PMSC Risk assessments, crisis plan internal and external audit reports and business continuity plan PIP 04. All reviewed annually or after any incident or change by the Harbour Master. Port marine safety code risk assessments and PIP 03. ISO 9001 Quality management and ISO 22301	Medium	Could happen anytime re fire, grounding, disease etc, terrorism when country in a state of high alert.	
AC1	Port operation	Safety; capacity	Port	Environmental	Security alert within the port, fire aboard a vessel approaching the port, environmental incident within the port resulting in pollution, health and safety incident within the port affecting staff port users or the general public, potential breach of legislation identified through internal system controls, sudden and unexpected higher levels of throughput of freight and passengers in the port	Health & safety procedures and risk assessments, PM 27 Document evaluation of compliance process in place, Port legislation register, reviewed and updated six monthly, crisis plan & business continuity plan PIP 04	Medium		
AD1	Buildings and Infrastructure	Failures, loss of building, asbestos and legionellas risks	Port	Legal & Compliance	Linkspan and gangway failure, damage to berth due to ships handling and movement, fire, lifting equipment failure, failure of information communication systems, asbestos exposure, legionnaires disease	Planned preventative maintenance programme, MMS System records, port marine safety code risk assessments PMSC Records and business continuity plan PIP 04, Fire risk assessments, thorough examinations by insurance company, information security statement of applicability and control, asbestos survey and management plan, legionella risk assessment and regular water monitoring.	Medium	If no inspections	
AE1	Public Image	Customer dissatisfaction	Port	Financial	Adverse publicity resulting in stakeholder dissatisfaction that could have a direct impact of the public perception of the port; media coverage (including social media) resulting from an incident	public relations company act on behalf of the port- regular meetings with pr company	Medium	At anytime particularly following an incident	
AF1	Human Resources	Staffing	Port	Financial	loss of key member of staff and specialist skills	BCM Plan PIP 04 and staff contingency plans	Medium	Economic downturn- higher salaries elsewhere	
B Health Safety & Licensing Rachael Dalby									
BA1	Community Safety Service	Safety and well being of people by stopping, or removing harm, caused by others- political reputation	HS&L	People & Processes	Acting on Poor intelligence/ not obtaining sufficient evidence/ action not taken appropriately resulting in physical harm	Citywide ASB service review undertaken and detailed recommendations to SPP in Sept including intervention and prevention and reviewing processes. This work is part of phase 2 of shared service. Mitigations dependant on implementation.	Medium	review carried out. Risk will increase if recommendations not carried out.	No
BA2	Community Safety Service	Safety and well being of people by stopping, or removing harm, caused by others- political reputation	HS&L	People & Processes	Poor inter agency communications	Working with other agencies; conference meetings. Shared services - Co-locating staff and senior Management. Police involved at senior level	High	High profile projects and public involved	Yes
BB1	Health & Safety	Legislation	HS&L	Legal & Compliance	Health & Safety to staff e.g. when visiting others etc	training, supervisor checks	Medium	When staff carry out visits to known violent situations or situations that could become violent	No
BC1	Health Grant	Legislation	HS&L	People & Processes	Spending criteria not properly defined and pressure to use for things with tenuous links to health	Health & wellbeing board agree criteria	Medium	When budgets have to be cut jeopardising politically sensitive activities	No
					Contractual activity - redefining all contracts taken over by PCC (see ICU)				
Q Civil Contingency Unit/ Business Continuity Cindy Jones									

## Appendix A - Risk Register 2014/15 By Service July 2014

01/07/2014 (updated 3/9/14 final)

Ref	Activity	Drivers	Service	Theme	Threats	Assurances	Risk Level as at July 2014	Triggers/ When is this a risk?	CURRENT SIGNIFICANT RISK
QA1	Emergency Planning	Legislation, budget pressures, reputational	Civil Cont.	Legal & Compliance	loss of Council volunteers Approx 137 volunteers recruited from the council employee pool. Must be council employees-to run rest centres, emergency response centre, local authority liaison wherever emergency is located, city contact officers out of hours initial contact, PIT (Potassium Iodate tablets) distribution team every time nuclear sub in docks. Sub risk includes people not attending training (mainly not being given time off duties to do so) . Impact would be mistakes made, right welfare not provided which could result in physical harm and massive reputational damage and potential civil action.	Yearly recruitment drive	High	When services are reviewed; as teams reduce dramatically; if outsourced leading to a loss of local skill base	Yes
QA2	Emergency Planning	Legislation, Financial, Reputational	Civil Cont.	Financial	Budget cuts- less capacity currently 2FTE and 1 PTE staff- small team if one post lost would have to stop doing things may not be able to meet statutory duties- less partnership working- censure from other partners; plans may be out of date; less training	no mitigation- team ceases	Medium	If review leads to staff cuts	No
QA3	Emergency Planning	Political, Financial	Civil Cont.	People & Processes	Centralisation of agency emergency planning functions; manage collectively local resilience form (LRF) statutory body strategic for planning emergency response.If give up a resource for strategic standalone organisation still require same responder level and would result in Loss of local knowledge, loss of staff for operational activities if strategic standalone service.	Review of strategic response	Low	If review doesn't work may come back on the agenda	No
QA4	Emergency Planning	Political	Civil Cont.	People & Processes	External community bid for the service. Two main players; British Red Cross & Community Resilience UK non-profit orgs. Currently not providing same level of service	Review process input	Low	If more Councils sign up/ when a bid comes in	No
QA5	Emergency Planning	Government, Budget pressures	Civil Cont.	Missed opportunity	Missed opportunities- NHS Public Health responsibilities have transferred to PCC and without an health emergency planner. Could be missing things re community resilience programme especially targeting less able. E.g. to alleviate blue light or social care services by developing programmes to make vulnerable people more self sufficient and resilient in emergency situations e.g. flooding. Currently have a student placement but are not in a position to develop a full programme. Need to develop relationships with care groups and develop packages	Student placement	Medium	When emergencies occur which impact on vulnerable people	No
QA6	Emergency Planning	Government, Budget pressures	Civil Cont.	People & Processes	Fuel Shortages National plan based on allocations- category 1 responder garages required to stay open for providing fuel for emergency activities. Devolving from government to local resilience forums to make their own arrangements with garages. There will be no guaranteed supply of fuel and no compunction on fuel stations to help out. National chains have complained to the government and said will not do this. PCC and partners may not have enough leverage to require fuel stations to remain open.	No mitigation currently in place- plan still being developed	High	When fuel shortage emergency	Yes
C Integrated Commissioning Unit									
CA1	Domiciliary Care	Cost, safeguarding, legislation	ICU	Financial	sustainability- costs so low they drive providers out of the market- costs cannot increase because of cuts in budgets	Discussions with providers pre tender. Contract monitoring of provision, sustainability checks when letting contracts	High	When re tendering; cuts in budgets; staffing of contracts becomes too low to provide service & provider goes out of business. National issue as some of the big providers have gone out of business; shortage of care staff as wages are considered too low	Yes

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CB1	Public Health Contracts	Value for money, legislation	ICU	Financial	Having taken over all contracts when Health became integrated contracts will need to be re-let this could cause issues with resources to re define services required and manage new tenders	ICU team resourced; management of contracts	Medium	When the contracts are re-tendered or a failure in contract delivery	No
					See also Childrens Services- checking of Independent Foster Care Agency				
D Education & Strategic Commissioning Julien Kramer									
Ref	Activity	Drivers	Service	Theme	Threats	Assurances	Risk Level as at July 2014	Triggers/ When is this a risk?	CURRENT SIGNIFICANT RISK
DA1	Universal Infant Free School Meals Implementation	Legislation	Educ	Financial	New legislation to provide free school meals for infants. Some schools no longer have kitchens. Budgets to provide meals?	Working group established. Heavy & Light equipment ordered. Kitchen upgrades to be completed by September 2014	Medium	when legislation is due to become active	Yes
DB1	School Improvement	Educational attainment/ improvement- political- budgets- legislation	Educ	People & Processes	Schools not meeting targets of educational attainment/improvement; projects not effective	Regular monitoring of improvement through internal team, desktop analysis, Schools Standards & Improvement Group, Progress Review Group, Schools Strategy Board and Children's Trust arrangements	High	Any dip in performance at Early Years, Key Stages 1,2 and 4; schools below floor targets; widening of the gap between Portsmouth and national averages; performance of pupil premium children	Yes
DB2	School Improvement	Inspection	Educ	Legal & Compliance	Poor Ofsted inspection of LA's School Improvement function	Annual self evaluation against set of criteria rag rated with quarterly reporting to Julian Woosters DMT; returns to DFE on a regular basis Planning group has met regularly this academic year to plan for inspection	High	Any gaps/ weaknesses identified as a result of a Self Assessment against the Inspection Framework	Yes
DB3	School places	Legislation	Educ	Legal & Compliance	LA not being able to meet its statutory duty of providing sufficient school places for primary (within 2 miles radius of home) and secondary (within 3 miles radius)	Current sufficiency plan in place- next plan for 2015/16 - 2017/18 in development	High	Surplus dips below 2%	Yes
DB4	School Buildings	Legislation	Educ	Financial	School buildings not being adequately maintained as a result of the demise of BSF and a significant reduction in Devolved Capital Funding to Schools	Asset Management Planning meetings with LA Maintained Schools; traded services agreement; statutory H&S, fire asbestos and legionella audits; reminders to schools of policies; training sessions held by PCC e.g. Legionella Management Training	Medium	Risk rating of 23-25 i.e. threat of closure	Yes
DB6	Support for Home to School and Home to College Transport	Legislation	Educ	Financial	Home to school transport overspends and increasing responsibilities	A new policy in place from September 2014. This introduces a new discretionary criteria to target support to those most in need and ensure most efficient mode of transport is offered	Medium	Likely to get worse from next year due to changes in legislation. Impact of new policy may mitigate pressure on budget	No
DB7	Outdoor Activities	Legislation (Health & Safety)	Educ	Legal & Compliance	Outdoor activities, residential trips, trips overseas etc	Ensure take up of traded services offer (contract with HCC) and assurance of from schools that if the offer has not been taken up that alternative arrangements have been made.	Low	When trips taken	No
DC1	Special Schools	Safeguarding, development, legislation	Educ	Legal & Compliance	Physical/ mental abuse by staff or other children; harm from scalding; medical negligence	Education officer attached to every school; monitor financial info, assets info, health and safety, Ofsted, Audit reports, complaints logged and investigated.	Medium	Could happen anytime	No
DD1	Special Needs in Schools	Legislation, development, budget cuts	Educ	Financial	If no places due to demand may have to place in special schools out of city. Highest cost can be £200k lowest cost £60k plus transport	Contingency this year through using capacity in all SEN schools and resources- project planning to manage pressures from Sept 2015	High	Projected places indicate pressure	No
DE1	Early years	Legislation, budget cuts, development	Educ	Financial	Increase in babies being born will impact on future provision- Not have sufficient budgets? Not able to support?	Reduction in service provision	High	Capacity concerns	Yes
DF1	Academy transfers and conversions	Legislation, Budget cuts	Educ	Financial	Increase in the number of schools becoming academies will result in a reduction in the Education Services Grant, transfer of previously delegated funds under DSG and maintenance capital funding to the LA. Extent of impact will depend on the LA's ability to retain services through traded services agreements. Ability to perform statutory functions effectively may also be affected e.g. pupil place planning, SEN placements etc.	Strategic partnership arrangements with Academy Trusts/ Sponsors. Traded Services Offer specific to Academies	High	When a third or more schools become academies	Yes
E Childrens Social Care & Safeguarding Stephen Kitchman									

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Ref	Activity	Drivers			Threats	Assurances	Risk Level as at July 2014	Triggers/ When is this a risk?	CURRENT SIGNIFICANT RISK
EA1	Safeguarding	Legislation, budget pressures, professional practice, inspections, risks of harm to a child; reputational	CSC&Safe	Legal & Compliance	If assessment and intervention not robust could lead to harm or death of a child; child protection plans	Training; social work matters transformation programme, best practice national guidance, learning from serious case reviews from other authorities as well as own; safeguarding board; Management of case loads; highly qualified staff; good management/ supervision and training, stable retained workforce.	High	Everytime an assessment is carried out; changes in staff; high turnover of staff	Yes
EA2		Ditto	CSC&Safe	Legal & Compliance	If intervention not acted upon could lead to harm or death of a child; partner organisation not reporting on a child at risk	see above	High	Changes in staff; high turnover of staff	Yes
EB1	Looked after Children	Ditto	CSC&Safe	Financial	Only resourced to manage a finite number of cases of looked after children so if more have to place outside the city and the cost can double which puts further pressure on resources.	Already have peaks & troughs -£60k over three years per child; Children with more specialist needs can require external placements which can cost in excess of £200k, small variation can have huge impact on budget	High	Peaks in demand	Yes
EB2		Ditto	CSC&Safe	Financial	Some London Boroughs rehousing people in Portsmouth could result in further pressures on services especially if they require assessments or interventions but do not fall within troubled families criteria so do not attract grant.	Horizon scanning; JSNA	High	Increase in demand	Yes
EB3	Foster	Ditto	CSC&Safe	Legal & Compliance	Requirement to now care for fostered/ cared for children longer and up to aged 25 who have been looked after or have a disability.	additional budget funding	High	Now- dependent on additional government funding as to size of risk	Yes
EB4	(ICU?)	Ditto	CSC&Safe	Legal & Compliance	Not checking DBS or Insurances on independent fostering agency	HCC contract agency	High	When children fostered through agency	Yes
EC1	Budgets	Ditto	CSC&Safe	Financial	Benchmarking based on historic data so could result in inaccurate budget forecasts; child population growing budget reducing; impact of London families	Horizon scanning; JSNA	High	Increase in demand	Yes
ED1	Ofsted	Ditto	CSC&Safe	Legal & Compliance	Not meeting Ofsted requirements; Ofsted expect more than basic statutory requirements to be delivered - expect effectiveness of performance.	Training; social work matters transformation programme, best practice national guidance, learning from serious case reviews from other authorities as well as own; safeguarding board; Management of case loads; highly qualified staff; good management/ supervision and training, stable retained workforce.	Medium		No
EF1	Residential Care	Ditto	CSC&Safe	Legal & Compliance	Grooming of children in Care	Grooming soon to be part of Ofsted inspection; new guidelines and best practice ; training for staff. DBS checks	High	Could be past cases still to come to light	Yes
EF2		Ditto	CSC&Safe	Legal & Compliance	Safety of Children in Residential Homes	Regularly inspected every six months; supervision; standards e.g. management of violence, every month regulation 33 visit assess quality (carried out by IRO'S) which go to Ofsted each month. DBS checks	Medium	at anytime	No
EG1	Adoptions	Ditto	CSC&Safe	People & Processes	Children not found suitable adoptions/ adoptions too slow	Supervisions, suitable qualified/ experienced staff,	Medium	When child in care awaiting adoption; when adoption process put in train	No
EH1	Youth Offending Team	Ditto	CSC&Safe	Legal & Compliance	Not meeting statutory requirements/best practice; insufficient resources	Youth Justice Strategic Plan, Youth Offending Improvement Plan, support from Youth Justice Board, Youth Offending Board meets monthly	High	When YO referred to PCC as lead Authority	Yes
EI1	Workforce	Legislation, political, budget pressures	CSC&Safe	People & Processes	Insufficient social workers leads to failure to deliver statutory duties, inspection risks, use of agency workers poses financial risk	Workforce strategy, Social Work Matters Programme, Performance framework for management scrutiny	High	When staff leave	Yes
F Adult Social Care Rob Watt									
FA1	Residential Care Homes	Legislation- political reputational	ASC	Legal & Compliance	Safeguarding concerns within homes e.g. risks to clients from environment; medication 'errors'; poor care; physical, mental, financial abuse	Policies, Procedures, Rules, training, supervision one to ones, inspections, monitoring of providers by ICU. Safeguarding concerns investigated by ASC	Medium	At anytime	No
FA2	Residential Care Homes	Legislation- political reputational	ASC	Financial	Closure of service due to financial difficulties	Ditto	Medium	ditto	No
FA4	Residential Care Homes	Legislation- political reputational	ASC	Legal & Compliance	non-compliance with CQC standards	Monitoring of providers by ICU- Safeguarding concerns investigated by ASC	Medium	ditto	No
FB1	Health & Safety	Legislation	ASC	Legal & Compliance	Lone working; visiting clients; Physical working conditions	H&S risk assessments, supervision, training	Medium	when staff visit clients and at workbase	No



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FC1	Referral & Assessment	Legislation- political reputational	ASC	Legal & Compliance	Safeguarding alerts not dealt with; action not taken appropriately	supervision checks, routine case audits peer review	Medium	When referrals received and when assessment made	No
FC2	Referral & Assessment	Legislation- political reputational	ASC	Legal & Compliance	Non compliance with DPA; statutory responsibilities	Training mandatory	Medium	At anytime during assessment process	No
FC3	Referral & Assessment	Legislation- political reputational	ASC	Financial	Insufficient capacity to meet increasing demand	Regular supervision, senior management monitoring, report to SDB maximum 50 caseloads per FTE, error reports; succession planning	Medium	Demand increasing as demographic changes	No
FD1	HR	Legislation	ASC	Legal & Compliance	DBS checks not carried out	Audits on DBS checks with HR	Medium	When new staff recruited	No
FE1	Service delivery	Budget pressures	ASC	Financial	sickness levels impacting on service delivery	One to ones ; return to work interviews	Medium	Current issue-Sickness levels high	No
FE2	Missed opportunities	Budget pressures	ASC	Missed opportunity	IT integration with GPs, tablets in the field, flexible & mobile working on site	Business case spend to save	Low	If business case not successful	No
FF1	Hospital based teams	Budget pressures- political	ASC	Financial	Capacity to manage hospital discharge	Health & Social Care Partnership Board/ Health & Wellbeing Board	Medium	When clients remain in hospital awaiting discharge	No
FG1	Capacity and budget	Budget pressures	ASC	Financial	Aging population leading to an increase in service demand with diminishing resource - £12m savings target for 2015/18 - expectations of Care Act including new responsibilities e.g. greater focus on Carers - New 'paying for care' arrangements under Care Act - loss of income	Early intervention & prevention,-Partnership with Health & efficiencies in back office.- Integration of services - Agreed use of Better Care Fund- Financial assessment on impact of charges to paying for care. - Report to SDB	High	- Ongoing work on BCF - When new arrangements in place (from Oct 15)	Yes
FH1	Deprivation of Liberty	Legislation	ASC	Legal & Compliance	New 'Cheshire West' Judgement on who should be assessed for DOL (deprivation of Liberty)	- more resource required for Best Interest Assessments - Training of Staff in BIA role etc	High	At anytime for people who have restrictions on independent living	
FI1	Client Record	Legislation	ASC	Legal & Compliance	Failure in IT systems leading to lack of available information on clients	Stand alone PC's backed up daily to ensure access to existing client records	Medium	At anytime	
FJ1	Extreme weather conditions	Legislation	ASC	Legal & Compliance	Inability to deliver services	Robust Business Continuity Plan to ensure service users are safe in the event of severe weather	Medium	At any time	
	Domiciliary Care	See ICU	ASC						
G Revs & Bens Ed Woodhouse									
GA1a	Changes in Welfare Legislation (Universal Credit)	Legislation	Revs & Bn	Financial	Insufficient detail to determine	Impact across Council services. Corporate planning will be required	Medium	Currently unclear. This depends on Government policy on how & when Universal Credit is introduced	No
GA1b	Changes in Welfare Legislation (Under occupation in social housing)	Legislation	Revs & Bn	Financial	Impact of 'spare room subsidy'/'bedroom tax' on provision of social housing availability	<b>Not Revenues &amp; Benefits risk</b> See Housing	High	when demand for housing of certain types from people already in social housing exceeds supply	Yes financial impact initially on those in social housing. If rents are not paid impact is on the Housing Service.
GA2	Changes in Council Tax Support legislation	Legislation- budget pressures	Revs & Bn	Financial	Reduced level of Council Tax collection which puts pressure on Council budget as a whole.	Debt management	Medium	When Council Tax is collected	No
GB1	DPA Compliance	Legislation	Revs & Bn	Legal & Compliance	No archiving solution in Northgate Revs & Bens system	Access to info controlled by DPA rules	Medium	6 years plus current year or when information held is no longer required	No
GC1	Further cash limit reductions	Budget	Revs & Bn	Financial	"Tip over point" may be reached in 2015/16, leading to inability to perform mandatory activities (collect tax, pay benefits)	Council budget	Medium	When budget is insufficient to carry out the activities	Yes, impact on Council budget as a whole, and failure to complete statutory tasks
H City Development & Cultural Services Stephen Bailly									
HA1	Archive & Museums	Budget pressures, reputational	CDCS	Financial	Security of collections against loss, theft, damage by fire or flood	PDR's, 1:1's every 4 weeks and team meetings. Collections Policy and actions. Accreditation standards. Invest in Volunteer standards and accreditation	Medium	At anytime and especially when showing a particularly valuable or rare collection	No
HA2	Archive & Museums	Budget pressures, reputational	CDCS	Financial	Collections under/ over valued	PDR's, 1:1's every 4 weeks and team meetings. Collections Policy and actions. Accreditation standards. Invest in Volunteer standards and accreditation	Medium	If valuations are overdue or a new item is received and not valued	No
HA3	Archive & Museums	Legislation	CDCS	Legal & Compliance	Non compliance with archival british standards	PDR's, 1:1's every 4 weeks and team meetings. Collection policy and actions. Accreditation Standards	Medium	At anytime	No
HB1	Libraries	Budget pressures, reputational	CDCS	Financial	Buildings security and security of collections	PDR's, 1:1's every 4 weeks and team meetings. Operational plans. Effective staff scheduling	Medium	When contractors need access; at closing of buildings at the end of a working day	No
HB2	Libraries	Budget pressures, political	CDCS	Financial	Availability of books and other media	PDR's, 1:1's every 4 weeks and team meetings	Medium	At anytime when books are not returned	No
HB3	Libraries	political	CDCS	People & Processes	facilities under used	Library development plan actions. Working in partnership with services to relocate such as PIP. Funding bids	Medium	At anytime due to incorrect location, opening times restricted	No
HC1	HR	Budget pressures	CDCS	Financial	Loss of key skills	PDR's, 1:1's every 4 weeks and team meetings. Management training. Salary benchmarking	High	At anytime due to budget pressures	No

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HC2	HR	Legislation	CDCS	Legal & Compliance	Health & Safety of staff in the work place	PDR's, 1:1's every 4 weeks and team meetings. E learning programme	Medium	At anytime but especially when changing collections, carrying out inventories	No
HC3	HR	Legislation	CDCS	Legal & Compliance	Non compliance with DBS checks where staff e.g. Museums have direct unsupervised regular contact with children	Recruitment process improved. Volunteer policy formalised	Medium	At anytime but especially on recruitment of new staff	No
HD1	Leisure , events, cemeteries, community centres & seafront and other	Legislation, budget pressures	CDCS	Legal & Compliance	non compliance with Health & Safety, legionella testing	PDR's, 1:1's every 4 weeks and team meetings. Operational check in place	Medium	At anytime	No
HD2	Leisure , events, cemeteries, community centres & seafront and other	Budget pressures	CDCS	Financial	Fraud risks; Income not accounted for	PDR's, 1:1's every 4 weeks and team meetings. Operational check in place	Medium	At anytime but especially when income collected and held prior to banking and when cash	No
HD3	Leisure , events, cemeteries, community centres & seafront and other	Legislation (e.g. Health & safety)	CDCS	Legal & Compliance	Events not properly risk assessed	PDR's, 1:1's every 4 weeks and team meetings. Robust events process	Medium	When event applications submitted	No
HD5	Leisure , events, cemeteries, community centres & seafront and other	Budget pressures, political	CDCS	Financial	Community Centres, maintenance not carried out, facilities under used	PDR's, 1:1's every 4 weeks and team meetings	Medium	Following particularly extremes of weather	No
HD6	Leisure , events, cemeteries, community centres & seafront and other	Budget pressures, political	CDCS	People & Processes	Conflicting usage of sea front/ beach/ sea	PDR's, 1:1's every 4 weeks and team meetings. Actions in seafront master plan	Medium	Mainly in the summer when use is high	No
HE1	Regeneration	Budget pressures/ political	CDCS	Financial	Lack of adoption of the necessary long term strategic plans leading to inadequate delivery of city regeneration plans		Medium		No
HF1	Buildings	Budget pressures	CDCS	Financial	Greater than expected deterioration of buildings and failure to adequately maintain assets	Also risk for Housing & Property Services and Finance	High		
HG1	Projects/ regen		CDCS	People & Processes	Predicted Milestones either on delivery of activity or financial are not met. See also Project Risk Registers- Northern Quarter, Tipner	Project Boards	High	Triggers such as market conditions negatively affect progression of key regeneration projects	Yes
I Corp Assets, Business & Standards Alan Cufley									
IA1	E.Health	Legislation, budget pressures, reputational	CABS	Legal & Compliance	Capacity in meeting statutory obligations: air quality, food safety, noise pollution control, pest control, port health especially if changes in legislations increases responsibilities	Policy to support service delivery at current levels	Medium	Changes in legislation and/ or increases in demand	No
IB1	Asset Management	Budget pressures	CABS	Financial	Economic downturn could reduce demand for PCC owned property	risk is spread across a diverse portfolio	Medium	When properties come up for rent renewal/ reviews	No
IB2	Asset Management	Budget pressures	CABS	Financial	Accuracy of property related financial data leading to under/over insurance and under/ over statement of financial assets	New concerto system being introduced	Medium	when data is entered on the system/ updated / revalued	No
IC1	Planning	Legislation	CABS	Financial	New government funding arrangements for affordable housing until 2018 has led to developers being cautious about financial outcomes of developing as well as impact of welfare reforms and reductions in benefits	Marketing	Medium	When land becomes available for development	No
IC2	Planning		CABS	Financial	availability of land for affordable housing development; conflict with obtaining maximum return on available land	Raising the profile of affordable housing in shaping the future of portsmouth	Low	When land becomes available for development	No
ID1	Housing renewal	Budget pressures	CABS	Financial	Reduced capital funding and change of emphasis from grant to loans for housing renewal could lead to worsening housing conditions in the city	Investigation of other funding sources	Medium	When demand for aid is received	No
ID2	Housing renewal		CABS	People & Processes	slow rate of referrals from OT will not utilise all of the available capital allocation so preventing people from getting the adaptations they need	working with social care to improve the effectiveness of the process	Low	When demands received	No
IE1	Trading standards	Budget pressures, legislation	CABS	Financial	Inadequate charging and cost recovery	Review charging mechanisms, benchmark	Medium	When budgets set	No
IE2	Trading standards	Reputational	CABS	Legal & Compliance	Compliance with seizure procedures especially re tobacco and alcohol	Supervision	Low	When items seized	No
IF1	Pest control	Budget pressures, legislation	CABS	Legal & Compliance	Health & Safety re use of chemicals	RIDDOR	Low	When Chemicals stored/ used	No
IF2	Pest control	Budget pressures, legislation	CABS	Financial	Not all income accounted for- fraud	Accountancy controls	Low	When Pest control service delivered	No
IF3	Pest control	Political	CABS	Financial	Insufficient fees charged to cover cost of service	reduce number of free and reduced free treatments benchmark	Medium	When budgets set	No
IF4	Pest control	Reputational	CABS	Environmental	Increase in pests and diseases if scale back of control activity due to reduced resources	Policies/ priorities in business plan	Medium	When control of e.g. rat populations reduced to below recommended levels or stopped	No

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IG1	PCMI	Budget pressures	CABS	Financial	Insufficient income/sales generation for employment learning and skills service leading to an unsustainable activity	Marketing	Medium	When a commission is completed	No
IH1	HR	Budget pressures	CABS	Financial	Loss of skilled workers/ reduced capacity	succession planning	High	When staff leave	Yes
IH2		Legislation	CABS	Legal & Compliance	Health & Safety of staff when visiting premises e.g. Pest Control, E health and Trading Standards	Risk assessments, training	Medium	When service is being delivered	No
IJ1	Enterprise Centres	Lost opportunities	CABS	Missed Opportunity	Not offering broadband	Demand analysis	Low	When premises become vacant	No
IK1	Corporate Assets	Budget Pressures	CABS	Financial	Lack of human resources to deliver the Corporate Assets Development Strategy	Recruit the appropriate resource to take this work forward	Medium	When leases are up for review/ developers approach PCC	No
IK2	Corporate Assets	Political/ Reputational	CABS	Legal & Compliance	The precedent conditions within the Northern Quarter development agreement are not met	Work closely with the developer to ensure issues are addressed and assumptions challenged at the earliest opportunity	Medium	At each stage of the project	No
IL1	Town Centre Management	Budget pressures	CABS	Financial	Insufficient investment in the existing city centre retail area when the Northern Quarter is opened	Refurbishment of the existing centre through the City Centre Environmental Improvements Project and continued support for events to maintain the vibrancy of the area	Medium	At key stages in the Northern Quarter development	No
IM1	Employment Learning & Skills	Lost opportunities	CABS	Missed Opportunity	Changes to government priorities for allocating funds to ELS services and underperformance on current contracts.	Continuous development to attract new funding	Medium	When contracts and new initiatives are announced	No
J Transport & Environment Simon Moon									
Ref	Activity	Drivers	Service	Theme	Threats	Assurances	Risk Level as at July 2014	Triggers/ When is this a risk?	CURRENT SIGNIFICANT RISK
JA1	Parks & recreation and misc	Review of parks and recreation contracts; Budget pressures, legislation	T&E	Legal & Compliance	Inspections not carried out	Contract monitoring	Medium	When inspections are due	No
JA2	Parks & recreation and misc	Review of parks and recreation contracts; Budget pressures, legislation	T&E	Financial	Dog kennels; fees not accounted for, donations not accounted for; misuse of facilities e.g. vets	Supervision	Medium	When donations/ income received; when vet treatment required	No
JA3	Parks & recreation and misc	Review of parks and recreation contracts; Budget pressures, legislation	T&E	Legal & Compliance	TPO's not monitored leading to a loss of trees	Contract monitoring	Medium	When inspections due	No
JA4	Parks & recreation and misc	Review of parks and recreation contracts; Budget pressures, legislation	T&E	Legal & Compliance	Health & Safety to staff re duties	Supervision, training	Medium	When staff are carrying out activities in parks etc	No
JB1	Parking	Review of parks and recreation contracts; Budget pressures, legislation	T&E	Legal & Compliance	Health & Safety of staff re enforcement	Supervision, training, cameras	Medium	when carrying out enforcement	No
JB2	Parking	Review of parks and recreation contracts; Budget pressures, legislation	T&E	Financial	Loss of income	Contracts with third parties; park and ride	Medium	When contracts due for renewal	No
JC1	Energy	Energy needs; budget pressures, political	T&E	Environmental	Sustainability; not reducing usage or costs of energy; Limited energy coming into the city by 2018	Business Plan & priorities; Prepare plan to overcome, investigate all options/alternatives; Promote energy efficiency/renewable energy	High	If plans not carried out	Yes
JD1	Projects	Transport development & regeneration of city;Infrastructure; Highways PFI; Coastal Defences; Budget pressures, political	T&E	Financial	sustainability jeopardised by decreasing resources; loss of key staff with knowledge of contracts	PFI Contract being reviewed	High	key staff leave; when monitoring not actioned-If review of PFI not carried out	see CC
JE1	Waste management	Legislation	T&E	Environmental	Toxic waste not properly disposed of leading to environmental damage	Policies & Process	High?	When waste dumped or transported- See Civil Contingencies	Yes
JG1	TRO, Safety and sustainable travel policies	Legislation, political	T&E	Environmental	Conflicts with sustainable travel policies and other council priorities	Park and ride project	Medium	when budgets set	No
JG2	TRO, Safety and sustainable travel policies	Legislation	T&E	Legal & Compliance	Claims re highways increasing	Contract monitoring	Medium		
JG3	TRO, Safety and sustainable travel policies	Legislation; political	T&E	Legal & Compliance	Insufficient extreme weather preparations	Contract monitoring	Medium	When weather warnings received	No
HD4	Cemeteries	Budget pressures, legislation	T&E	Environmental	Cemeteries lack of capacity; Changing community needs e.g. different religions; Reduction in demand for traditional burials, increase in other religious/cultural burials, insufficient space/layout to accommodate, extra land required, financial impact	Prepare a report on the future of burials in the city - to include estimated religious needs; Be aware of statutory legislation and requirements, plan alternatives if necessary eg. land buying	High	Once capacity is approaching maximum	Yes

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J11	Sea Defences	Budget pressures Legislation	T&E	Environmental	Sea Defences North Portsea final phase - diminishing risk	Funding secures	Medium	If project deadlines not met	
J12	Sea Defences	Budget pressures Legislation	T&E	Environmental	Southsea Seafront- delay in government funding	Contingencies in place	High	if exceptional winter storms	Yes
K Housing & Property Services Owen Buckwell									
KA1	Tenancy	Legislation, political	Hsng& Prop	Legal & Compliance	Asbestos removal & Legionellas prevention- procedures not followed	Monitoring and corporate policies & procedures	Medium	Anytime	No
KA2	Tenancy	Legislation, political	Hsng& Prop	People & Processes	Sub Letting	Guidance & procedures. Monitoring. Recently conducted checks found no evidence of sub-letting	Low	If tenancy checks not made; when tenants have had no contact for a lengthy period of time.	No
KA3	Tenancy	Legislation, political	Hsng& Prop	Financial	Future impact of the implementation of Universal Credit/ increased rent arrears	Improved Advice and Support initiative	Medium	Portsmouth is scheduled to adopt UC in 2016	No
KA4	Tenancy	Legislation, political	Hsng& Prop	People & Processes	Anti social behaviour impacts on tenants	ASBU	High	When complaints made	Yes
KA5	Tenancy	Legislation, political	Hsng& Prop	Legal & Compliance	Properties meeting minimum legal standards	Right to repair scheme , reactive maintenance. Tenant satisfaction with the repairs service is very high at around 98%	Low	When tenants request repairs	No
KA6	Tenancy	Legislation, political	Hsng& Prop	Legal & Compliance	Fire assessments in communal areas and escape routes	Monitoring and corporate policies & procedures	Medium	If inspections due and not carried out	No
KB1	Green & clean	Legislation	Hsng& Prop	Legal & Compliance	Health & Safety of staff	Training	Medium	When carrying out activities	No
KB2	Green & clean	Legislation	Hsng& Prop	Legal & Compliance	Misuse of materials- Health & Safety	RIDDOR, Supervision, training	Medium	When carrying out activities	No
KC1	Projects	Political	Hsng& Prop	People & Processes	Somerstown	Project Board	Low?	When each milestone predicted	No
KD1	Asset Management	Legislation (employers responsibilities)	Hsng& Prop	People & Processes	Civic Security e.g. tail gating	Policies & procedures and reminders to staff	Medium	When staff / contractors enter and leave building; when high risk of terrorist attacks	No
KD2		Legislation, financial (budget pressures)	Hsng& Prop	Financial	Maintenance & repairs -offices not maintained	Planned upgrades e.g. boilers	Medium	If maintenance/ repairs not carried out when required	No
L Information Services Mel Burns									
LA1	Disclosure of sensitive data both accidental and malicious	Legislation	IS	Legal & Compliance	Fines from the ICO or legal action taken against the Authority and individual staff member	Policy and procedure; staff training awareness and preventative technical solutions	Medium	If staff do not adhere to policy; staff reductions i.e. less time spent on due diligence	No
LB1	Modern Records	Archiving	IS	Legal & Compliance	Vulnerability of location to floods		High	When extreme weather warnings issued	Yes
LC1	Applications	Archiving of data	IS	Legal & Compliance	No policy -at risk of breaching DPA and fines		High	When data no longer required	Yes
LD1	Business Continuity- Hacking	Access to systems and Info	IS	People & Processes	Hacking, virus, power loss, loss of access to buildings, loss of staff	Software, penetration testing, firewalls; password and auto logging off; hot start business continuity	Medium	At anytime with 24/7 access to data	No
LE1	Business Continuity- single points of failure in ICT infrastructure and systems access	Access to systems and Info	IS	People & Processes	Ability of the organisation to be able to transact at all levels with access to key information unavailable impacting on key frontline activity; inability to deliver critical services across the board.	Recovery plans, SLA monitoring and supplier management, proactive monitoring, regular security patching, new generator on order, best practice design, resilience options always considered subject to cost.	Medium	Force Majeure, human error, technical failure, malicious attack; risk is ever present with peaks.	No
LF1	Business Continuity- Malicious Attack	sustained service delivery	IS	People & Processes	Denial of service, loss of data, reputational damage, inability to transact, fines	PSN Compliance, proactive monitoring, penetration tests and remedial action, best practice implementations and advice, full time security officer, highest priority for the service	High	Constant and relentless risk, high publicity, election periods, launches, disgruntled malicious individuals	Yes
N HR, Legal & Performance Jon Bell									
NA1	Whole service; HR, Legal, Procurement, Audit & Assurance; Project /Transformation/ strategy	Budget Pressures	HR, L&P	Financial	Reduced Capacity due to budget cuts. Critical parts of the service cease to operate effectively and support to the organisation diminished. Risk of higher costs if sourced externally e.g. legal	Constantly reviewing service areas to ensure resources deployed against greatest priorities and resilience is maintained	High	Continuous and escalating	Yes
NA2	Whole Service; HR, Legal, Procurement, Audit & Assurance; Project /Transformation/ strategy	Budget pressures	HR, L&P	Financial	Unable to maintain key professional skills; Unable to provide advice and support to the organisation leading to poor decision making and higher costs	Grow your own policy across service MSP's for hard to recruit areas and workforce planning to identify future skills requirements and succession planning.	High	Loss of key staff; lack of development in skills of existing staff; unable to recruit suitably skilled staff	Yes
NB1	Legal- Child Protection	Budget Pressures, Reputational	HR, L&P	Financial	Unable to manage caseload; risk to safety and wellbeing of vulnerable clients plus reputational risk to the council	Maintain team at current (generous) level and up-skill solicitors to cover other areas of law when under-utilised	High	Increase in volume/complexity of cases; loss of key staff and unable to recruit skilled replacements	Yes
NC1	Governance	Budget pressures, Legal & Financial & Reputational	HR, L&P	Legal & Compliance	Weakness/ lack of compliance with governance leaving council exposed to unacceptable risk leading to legal challenge, financial loss, service failure	New corporate governance principles. Improved approach to risk management. Review of mandatory training. Review of consitition	High	On-going particularly as capacity reduces across the Council	Yes
P Customer, Community & Democratic Services Louise Wilders									

## Appendix A - Risk Register 2014/15 By Service July 2014

01/07/2014 (updated 3/9/14 final)

Ref	Activity	Drivers	Service	Theme	Threats	Assurances	Risk Level as at July 2014	Triggers/ When is this a risk?	CURRENT SIGNIFICANT RISK
PA1	HR	Budget pressures	CCDS	Financial	Reliance on key staff	Succession planning and whole service review ensuring key resources retained	High	When staff absent or leave	No
PB1	Servicing Committees/ Elections	Legislation/ Budget pressures	CCDS	People & Processes	Failure to adequately administer elections, particularly with added pressures of IER. Pressure to get sufficient resource in place includes reliance on goodwill	Preparations started well in advance of election due date	Low	When election due	No
PC1	Equality & Diversity	Legislation, budget pressures, reputational	CCDS	Legal & Compliance	Non compliance with legislation leading to legal challenge and fines	Monitoring & reporting to G&A&S	High	When challenged	No
PD1	Helpdesk	Reputational	CCDS	People & Processes	Not achieving performance indicators or meeting customer expectations of delivery of service.	Supervision & Monitoring	Medium	When interactions occur with customers	No
PE1	Third Sector	Political	CCDS	People & Processes	Not engaging with third sector	Forums	High	At budget setting	Yes
PF1	Comms	Legislation, political	CCDS	People & Processes	Not communicating or consulting with stakeholders effectively	Review of Intranet and web, new consultation policy and procedures	Medium	When consultations required and on-going information available to all	No
PG1	Registrars	Legislation	CCDS	Financial	Misuse of certificates; income not accounted for	Accounting controls, Supervision & Monitoring; external audits	Medium	When births, deaths, marriages reported	No

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# Agenda Item 12

Agenda item:

**Decision maker:** Cabinet  
City Council

**Subject:** Treasury Management Outturn 2013/14

**Date of decision:** 25 September 2014 (Cabinet)  
26 September 2014 (Governance and Audit and Standards Committee)  
14 October 2014 (City Council)

**Report by:** Chris Ward, Head of Financial Services & Section 151 Officer

**Wards affected:** All

**Key decision:** No  
**Budget & policy framework decision:** No

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## 1. Purpose of report

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. 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 10.3%;
- (b) The actual ratio of HRA financing costs to the HRA net revenue stream of 12.2%;
- (c) Actual non HRA capital expenditure for 2013/14 of £61,687,000;
- (d) Actual HRA capital expenditure for 2013/14 of £30,110,000;

(e) The actual non HRA capital financing requirement as at 31 March 2014 of £267,848,000;

(f) The actual HRA capital financing requirement as at 31 March 2014 of £143,557,000;

(g) Actual external debt as at 31 March 2014 was £441,970,134 compared with £450,283,442 at 31 March 2013.

Appendix B - That the following actual Treasury Management indicators for 2013/14 be noted:

(a) The Council's gross debt less investments at 31 March 2014 was £145,209,000;

(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%	16%	49%

(c) The Council's sums invested for periods longer than 364 days at 31 March 2014 were:

	Actual £m
31/3/2014	108
31/3/2015	66
31/3/2016	51

(d) The Council's fixed interest rate exposure at 31 March 2014 was £247m, ie. the Council had net fixed interest rate borrowing of £247m

(e) The Council's variable interest rate exposure at 31 March 2014 was (£189m), ie. the Council had net variable interest rate investments of £189m



### **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 2013/14 on 19 March 2013.

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. Reasons for Recommendations**

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.

### **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:

<b><u>Title of document</u></b>	<b>Location</b>
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 25 September 2014.

.....  
Signed by: the Leader of the Council

**ACTUAL PRUDENTIAL INDICATORS**

**1. RATIO OF FINANCING COSTS TO NET REVENUE STREAM 2013/14**

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 2013/14 were as follows:

	<b>Original Estimate</b>	<b>Actual</b>
	£'000	£'000
<b>Financing Costs:</b>		
Interest Payable	17,541	17,738
Interest Receivable	(1,146)	(1,659)
Provision for Repayment of Debt	8,948	3,618
Effect of financial regulations on finance leases, premiums & discounts	(664)	(662)
<b>Total Financing Costs</b>	<b>24,679</b>	<b>19,035</b>
<b>Net Revenue Stream</b>	<b>186,054</b>	<b>184,415</b>
<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>13.3%</b>	<b>10.3%</b>

Interest Receivable was £0.5m more than the original estimates. This was due to the interest rates on the Council's investments being higher than had been anticipated.

The provision for the repayment of debt was £5.3m less than the original estimate. This is mainly because on 3 June 2013 the City Council resolved to use City Deal grant to repay the entire principal due on the Council debts in 2013/14 and to reduce the revenue provision for the repayment of debt by the amount of principal repaid using City Deal grant. The City Deal grant from the Government is conditional on it being applied to fund capital expenditure or to repay the principal on borrowing by 30 June 2015. This will help to ensure that the 30 June 2015 deadline is achieved.

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	12.4%	12.2%

The actual percentage of HRA financing costs to net revenue stream is lower than anticipated. This is because the actual HRA Item 8 Credit consolidated interest rate, ie. the interest rate applied to surplus HRA cash, was higher than estimated.

## 2. ACTUAL CAPITAL EXPENDITURE 2013/14

There has been significant under spending against the original budget. This is mostly due to slippage or funding not being available. Therefore the under spend does not represent additional capital resources. Actual capital expenditure in 2013/14 was as follows:

	Estimate £'000	Actual £'000
Culture & Leisure	4,283	2,245
Children's & Education Services	19,027	9,554
Environment & Community Safety	636	812
Health & Social Care (Adults Services)	1,162	1,455
Resources	7,770	3,368
Millennium	812	(254)
Planning, Regeneration & Economic Development	2,503	1,169
Commercial Port	1,379	959
Traffic & Transportation	29,375	31,643
Housing General Fund	2,810	2,061
Local Enterprise Partnership	-	8,675
<b>Total Non HRA</b>	<b>69,757</b>	<b>61,687</b>
HRA	34,723	30,110
<b>Total</b>	<b>104,480</b>	<b>91,797</b>

Actual capital expenditure was £12.7m below the original capital programme. The main variances were as follows:

#### Culture & Leisure - £2.1m Underspend

This underspend is due to slippage on a number of capital schemes. The relocation of the Council's archives to Southsea Library took longer to implement than had been anticipated. The final contract payment for the Mountbatten Centre upgrade is being withheld pending the outcome of a legal dispute over responsibility for the sports hall floor. The original proposal to build 100 new beach huts has been withdrawn following public consultation and a revised scheme has yet to be prepared and approved. Expenditure on the D Day Museum has been re-profiled over 5 years.

#### Children's and Education Services - £9.5m Underspend

The principal reason for this underspend was the removal of £7m of unsupported borrowing from the capital programme regarding the Schools Strategy scheme (formerly Building Schools for the Future). In addition there was £1.4m of slippage on the extension and re-modelling of Goldsmith Infants School due to changes to the design, and £1.1m of slippage due to the re-profiling of expenditure on the establishment of Milton Park Primary School.

#### Resources - £4.4m Underspend

The principal reason for this underspend is the re-phasing £3.6m of capital investment at the Council's subsidiary company, MMD (Shipping Services) Ltd over a further two years. This also has the effect of spreading the planned capital advances to MMD by the Council over a longer period. In addition, the contingency provision built into the landlord's maintenance budget was not required.

#### Millennium - £1.1m Underspend

The original capital programme included provision to complete the Millennium walkway from Gunwharf Quays to the Historic Dockyard. It was subsequently decided that this scheme did not provide the best value for money and it was abandoned. The abandonment of the scheme also meant that £0.3m of capitalised costs that had previously been incurred had to be written off to revenue.

#### Planning, Regeneration and Economic Development - £1.3m Underspend

This was due to delays in the design and planning of the Northern Quarter redevelopment scheme.

#### Local Enterprise Partnership - £8.7m Overspend

After the original capital programme was approved, the Council changed its accounting policy in relation to the Solent Local Enterprise Partnership (LEP) which receives government grants which are then used to lend to other organisations. The Council 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. The new approach is to include the Solent LEP's income, expenditure (including capital expenditure), assets and liabilities in its accounts. This has resulted in the Council's accounts including £8.7m of capital expenditure that had not been included in the original estimates.

#### Housing Revenue Account (HRA) - £4.6m Underspend

The underspend of £4.6m, is due to a number of projects that have slipped from 2013/14 into future years of the capital programme. This slippage was partly due to wet weather conditions over the winter which hampered the progress of building projects.

### **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 31<sup>st</sup> March 2014 were as follows:

	<b>Original Estimate</b>	<b>Actual</b>
	£'000	£'000
Non HRA	290,697	267,848
HRA	141,744	143,557
Total	432,441	411,405

The capital financing requirement is lower than the original estimate due to less capital works financed by borrowing being undertaken in 2012/13 which led to a lower than anticipated opening capital financing requirement at 1 April 2013, and further underspending on capital works financed by borrowing in 2013/14.

#### **4. ACTUAL EXTERNAL DEBT**

At 31 March 2014, the City Council's level of external debt amounted to £441,970,134 consisting of the following:

- Long Term Borrowing £354,822,109
- Finance leases £3,775,310
- Service concessions (including PFI schemes) £83,372,715

The overall level of debt, excluding debt managed by Hampshire County Council, has reduced between 2012/13 and 2013/14 by £8,313,308.

#### **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 2013/14****1. GOVERNANCE**

Treasury management activities were performed within the Prudential Indicators approved by the City Council.

Treasury management activities are also governed by the Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council. Treasury management activities were performed in accordance with these policies with the exception of investment activity on 28 March when the Council received £48.8m of City Deal Grant. The Council was only informed that it would be receiving this grant in 2013/14 on 25 March. Consequently this was not taken account in the Treasury Management Policy, and the limit on investments in money market funds and the variable interest rate exposure limit were exceeded for one day on 28 March.

When the City Deal Grant of £48.8m was received on 28 March, it had to be invested that day. Rather than invest all of this sum over a longer term on 28 March at the interest rates available on that day, it was decided to invest this sum in instant access AAA rated money market funds until better longer term investment opportunities arose. This resulted in the limit for investments in money market funds of £80m being exceeded by £5.2m on 28 March. AAA rated money market funds are a low risk form of investment as they are well diversified and the constituent investments are of short durations. However, money market funds can invest in the same institutions as the Council, and different money market funds can invest in the same institutions as each other, which can result in a concentration of risk in a particular institution.

This also resulted in the Council's variable interest rate exposure limit of (£189m), ie. net variable interest rate investments of £189m, being exceeded by £10.8m on 28 March. 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. However, these risks are currently mitigated by the very low interest rates currently offered by the market for investments.

## 2. FINANCING OF CAPITAL PROGRAMME

The 2013/14 capital programme was financed as follows:

Source of Finance	Anticipated £'000	Actual £'000
Corporate Reserves (including Capital Receipts)	12,380	2,581
Grants & Contributions	43,630	62,757
Revenue & Reserves	33,745	23,970
Long Term Borrowing	14,725	2,489
Total	<u>104,480</u>	<u>91,797</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.

In addition the Council received £48.8m of City Deal Grant which must be applied to finance capital expenditure or to the repayment of principal on borrowing by 30 June 2015. In order to ensure that this deadline is achieved, the amount of capital expenditure financed by City Deal Grant has been maximized. This has resulted in more capital expenditure being financed from grants and contributions than had been anticipated and less capital expenditure being financed from other sources than had been anticipated.

## 3. ECONOMIC BACKGROUND

After strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, it appears that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. In the February 2014 Inflation Report, the MPC therefore broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of indicators. Accordingly, markets are expecting a first increase around the end of 2014, though recent comments from MPC members have emphasised they would want to see strong growth well established, and an increase in labour productivity / real incomes, before they would consider raising Bank Rate.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.6% in March: forward indications are that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19.

The Federal Reserve has continued with its monthly \$10bn reductions in asset purchases which started in December; asset purchases have now fallen from \$85bn to \$55bn and are expected to stop by the end of 2014, providing strong economic growth continues in the remainder of the year.

#### 4. GROSS AND NET DEBT

The Council's net borrowing position at 31 March 2014 excluding accrued interest was as follows:

	<b>1 April 2013</b>	<b>31 March 2014</b>
	£'000	£'000
Borrowing	358,173	354,822
Finance Leases	4,538	3,775
Service Concession Arrangements (including PFIs)	84,221	83,373
<b>Gross Debt</b>	<b>446,932</b>	<b>441,970</b>
Investments	(246,068)	(296,761)
<b>Net Debt</b>	<b>200,864</b>	<b>145,209</b>

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 very low PWLB rates has also temporarily increased the Council's cash balances. The Council's investments increased by £51m in 2013/14. This was mainly due to the receipt of £48.8m of City Deal grant on 28 March 2014. However these reserves are fully committed and are not available to fund new expenditure.

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. DEBT RESCHEDULING

Under certain circumstances it could be beneficial to use the Council's investments to repay its debt. However this normally entails paying a premium to the lender, namely the Public Works Loans Board (PWLB). Debt rescheduling is only beneficial to the revenue account when the benefits of reduced net interest payments exceed the cost of any premiums payable to the lender. 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.

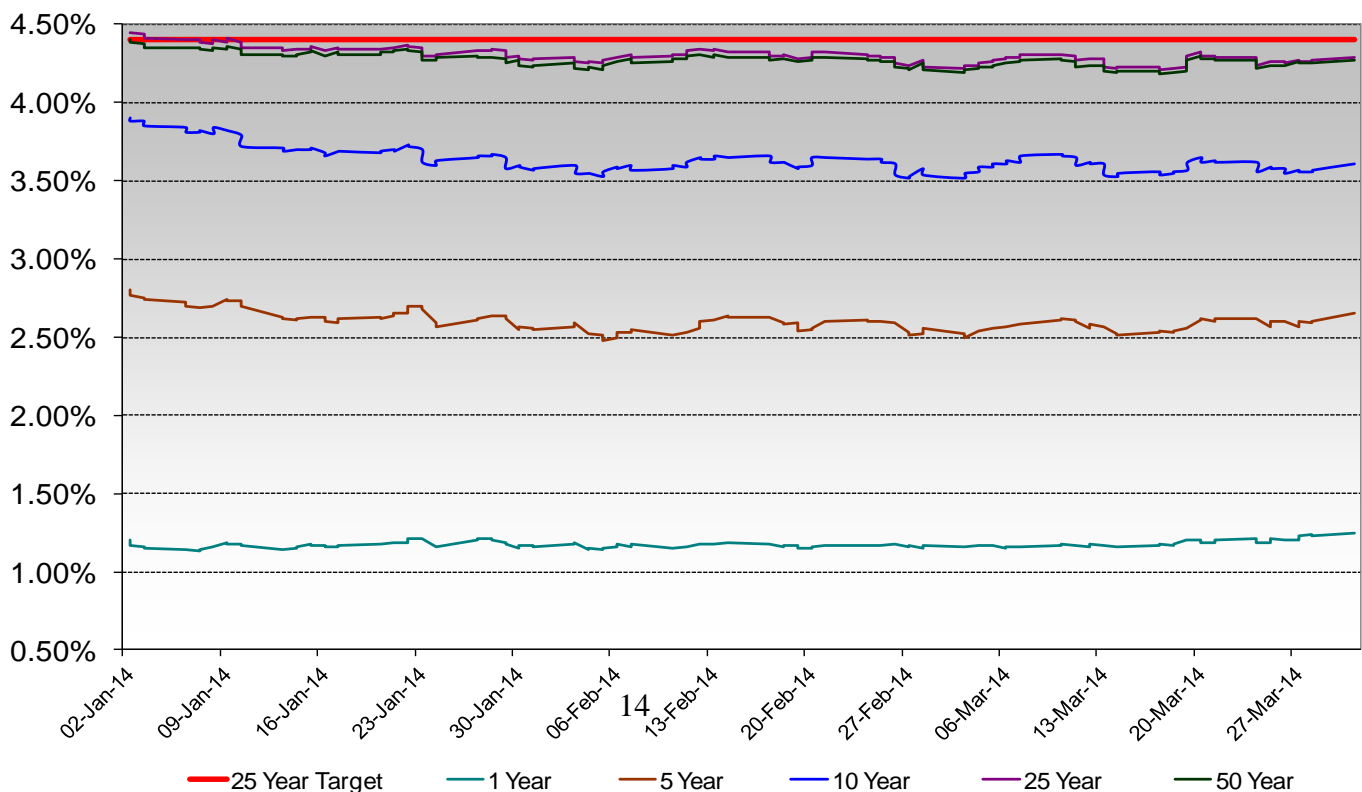
No debt rescheduling was undertaken in 2013/14.

## 6. BORROWING ACTIVITY

On 20<sup>th</sup> 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 23<sup>rd</sup> 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 28<sup>th</sup> 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 £30.6m at 31<sup>st</sup> March 2014.

The table below shows the PWLB rates in 2013/14.



No new long term borrowing was undertaken in 2013/14.

## **7. REFINANCING RISK**

In recent years the cheapest loans have often been very long loans repayable at maturity.

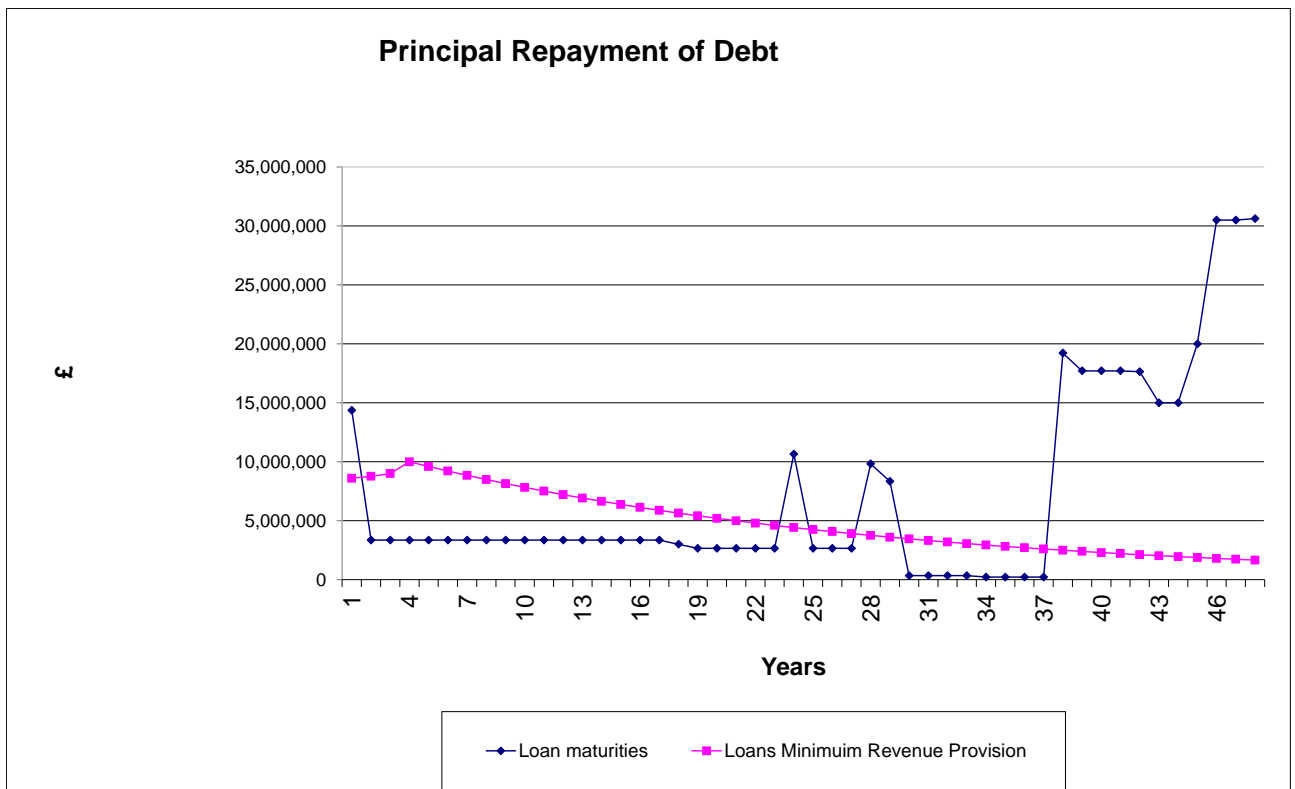
During 2007/08 the Council rescheduled £70.8m of debt. This involved repaying loans from the Public Works Loans Board (PWLB) early and taking out new loans from the PWLB with longer maturities ranging from 45 to 49 years. The effect of the debt restructuring was to reduce the annual interest payable 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 49% 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.



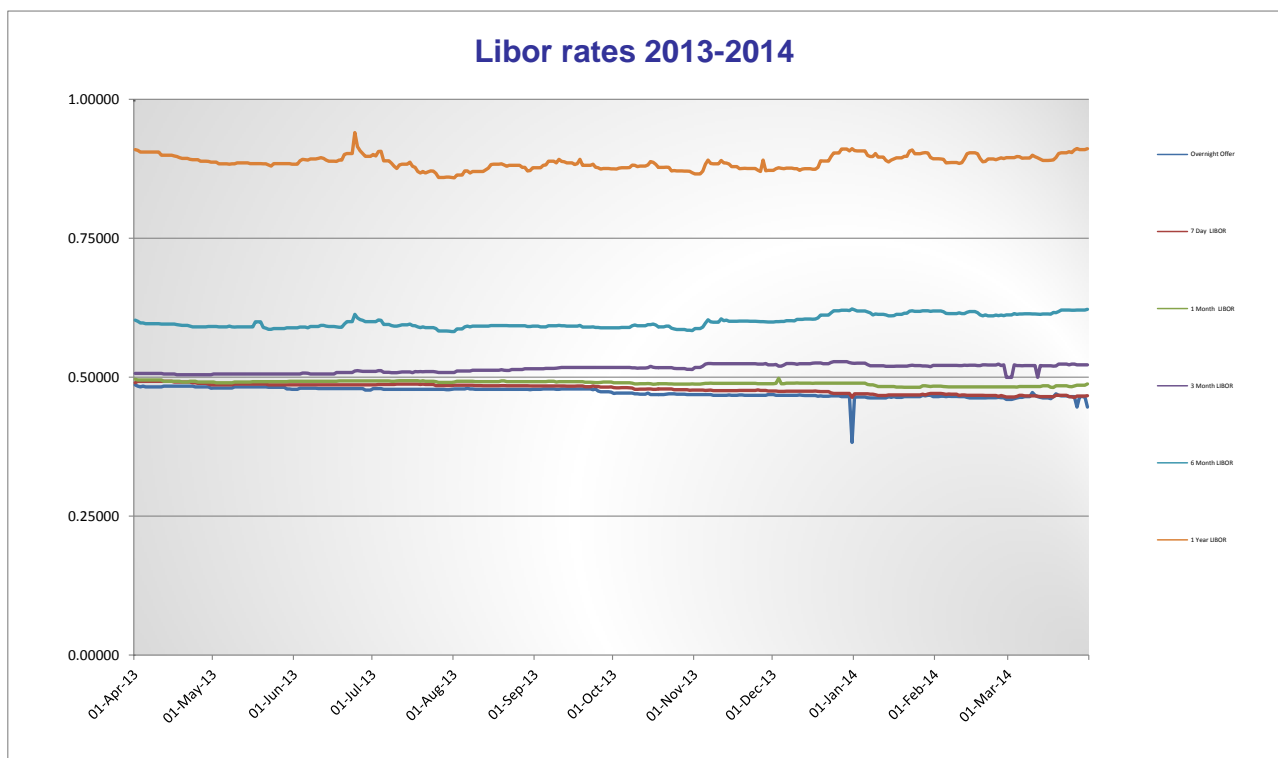
This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see sections 9 and 11). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders.

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.

	<b>Under 1 Year</b>	<b>1 to 2 Years</b>	<b>3 to 5 Years</b>	<b>6 to 10 Years</b>	<b>11 to 20 Years</b>	<b>21 to 30 Years</b>	<b>31 to 40 Years</b>	<b>41 to 50 Years</b>
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%	16%	49%

## 8. INVESTMENT ACTIVITY

London inter bank lending rates in 2013/14 are shown in the graph below:



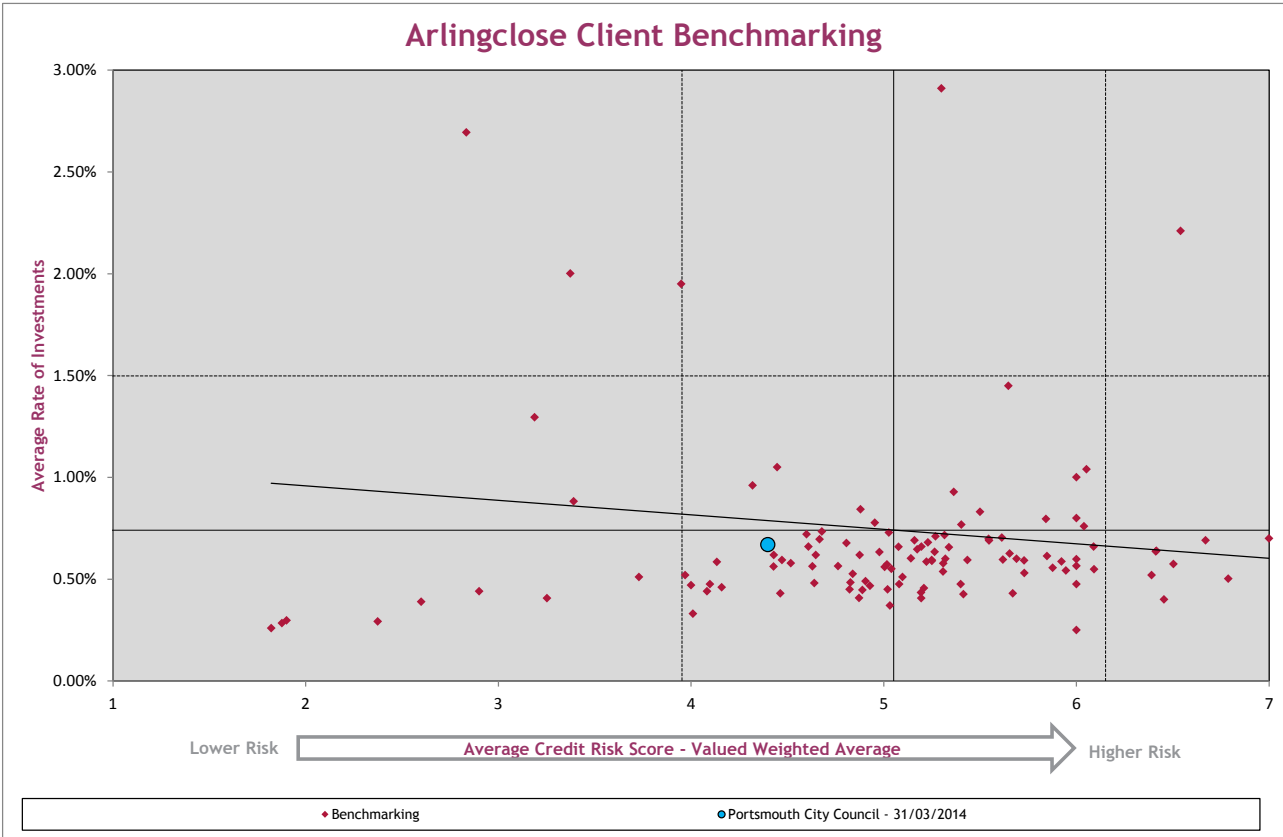
Bank base rate remained at 0.5% over the financial year and has remained unchanged since March 2009.

The City Council's overall returns on its investments fell as existing investments made in earlier periods matured and were replaced by new investments at the lower rates which were available at the time.

The average return on the Council's investments fell from 0.96% in 2012/13 to 0.74% in 2013/14. The average return on the Council's investments on 31 March 2014 was 0.67%. This is largely a consequence of the Council receiving £49m of City Deal grant from the Government on 28 March 2014 as it had to be invested in instant access money market funds which pay a relatively low rate of interest until it could be invested over a longer term.

The Councils Annual Investment Strategy sets an investment limit for each institution. A number of investment limits were revised as part of the Mid-Year Review approved by the City Council on 10 December 2013. The investment limits for unrated building societies are set at 0.5% of their total assets. As part of the review the investment limits of unrated building societies were revised to reflect the latest data published by KPMG. As part of this review the investment limit for Darlington Building Society was reduced by £0.1m from £2.7m to £2.6m, and the investment limit for Hanley Economic Building Society was also reduced by £0.1m from £1.7m to £1.6m. The Council had invested £2.7m in Darlington Building Society and £1.7m in Hanley Economic Building Society prior to the investment limits being reviewed. As a consequence of this, the Council's investments in both of these building societies now exceeded their investment limit by £0.1m. These investments matured on 10 January 2014 and 17 April 2014 respectively.

The City Council's investment activities are benchmarked by Arlingclose against its other clients. The graph below shows the councils' average rates of return as at 31 March 2014 against credit risk.



Portsmouth is below the line of best fit and to the left of the average. This indicates that Portsmouth's investment portfolio has a relatively low risk, but that its returns are below average. This situation has arisen following the receipt of £48.8m of City Deal grant on 28 March 2014 which was invested in instant access money market funds, which are low risk but offer low returns, pending investment over a longer term.



## 9. SECURITY OF INVESTMENTS

The risk of default has been managed through limiting investments in any institution to a maximum £26m, setting investment limits for individual institutions that reflect their financial strength and spreading investments over countries and sectors.

The 2013/14 Treasury Management Policy approved by the City Council on 19 March 2013 and amended by the City Council on 10 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 institutions 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

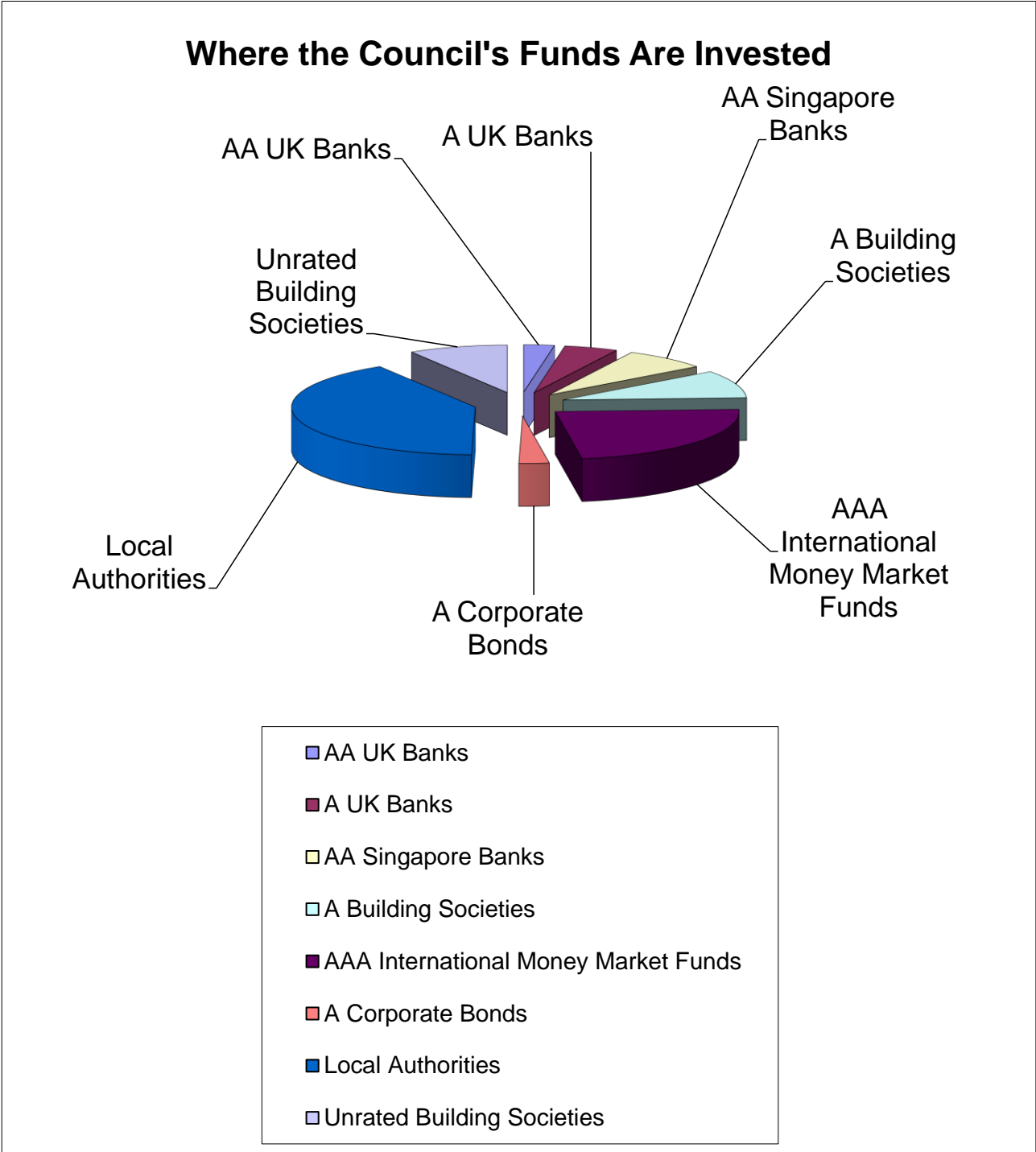
### Individual / Financial Strength Rating

C from Fitch or Moody's (Standard & Poor do not provide these ratings)

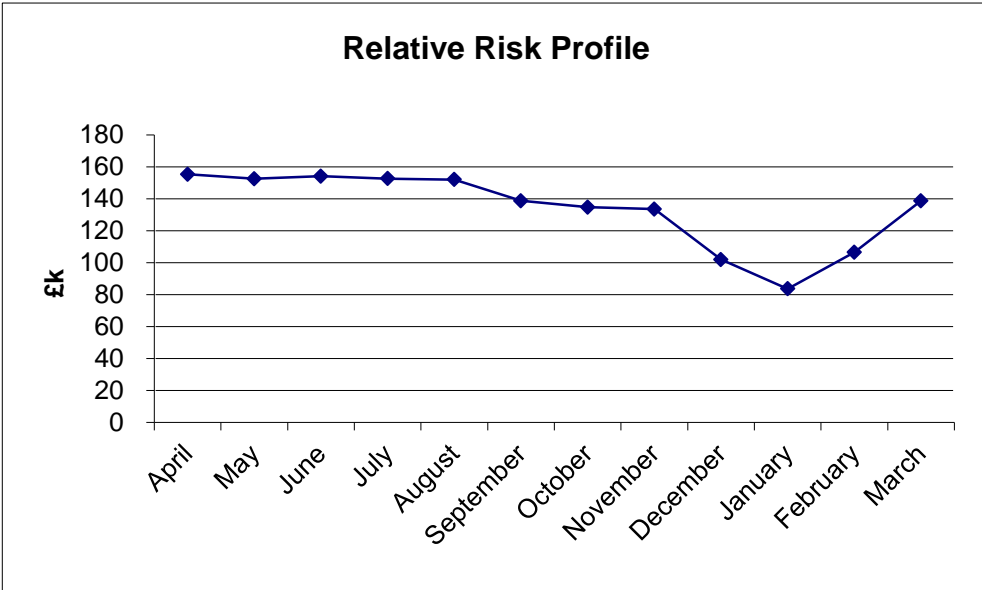
In addition the Council may invest in 23 unrated building societies and one building society with a single credit rating. These were drawn from the 36 largest building societies, but excluding those with especially large proportions of non-mortgage lending or wholesale funding, and those with particularly low levels of capital or liquidity, compared with the sector average.

At 31 March 2014 the City Council had on average £6.7m invested with each institution.

The chart below shows how the Council's funds were invested at 31 March 2014.



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.



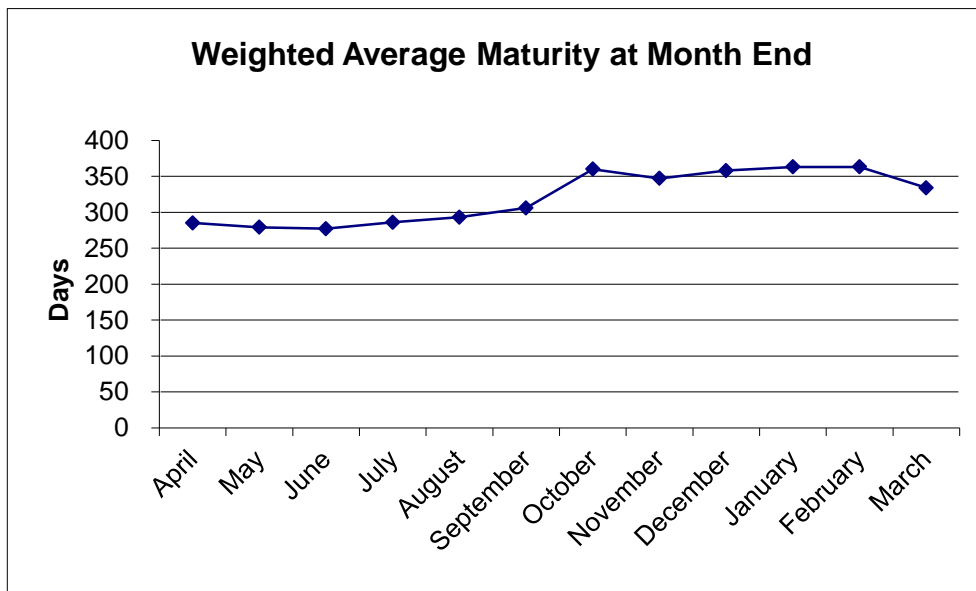
The City Council’s investment portfolio became relatively less risky in December and January. This is largely due to much less use being made of unrated building societies. More investments in unrated building societies were made in February and March.

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 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 31 March 2014 £69.5m 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.

The weighted average maturity of the City Council’s investment portfolio started at 285 days in April and increased to 334 days in March as funds were available to invest longer to get a higher return. The weighted average maturity of the City Council’s investment portfolio dipped in March due to the receipt of £48.8m of City Deal grant which had to be invested in instant access money market funds until it could be invested over a longer term in 2014/15. This is shown in the graph below.



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 19th March 2013 is shown below.

	<b>Limit</b> <b>(Not Exceeding)</b>  £m	<b>Actual</b>  £m
31/3/2014	218	108
31/3/2015	208	66
31/3/2016	198	51

## 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 limit set by the City Council as at 31 March is shown below.

	<b>Limit</b>	<b>Actual</b>
	<b>£m</b>	<b>£m</b>
Maximum Projected Gross Borrowing – Fixed Rate	401	355
Minimum Projected Gross Investments – Fixed Rate	(39)	(108)
Fixed Interest Rate Exposure	362	247

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 limit set by the City Council as at 31 March is shown below.

	<b>Limit</b>	<b>Actual</b>
	<b>£m</b>	<b>£m</b>
Minimum Projected Gross Borrowing – Variable Rate	-	-
Maximum Projected Gross Investments – Variable Rate	(189)	(189)
Variable Interest Rate Exposure	(189)	(189)

## 12. REVENUE COSTS OF TREASURY MANAGEMENT ACTIVITIES IN 2013/14

Expenditure on treasury management activities against the revised budget is shown below.

### Interest 2013/14

	Revised Estimate 2013/14 £	Actual 2013/14 £	Variance +/- £
PWLB – Maturity Loans	10,570,396	10,570,396	-
PWLB - E.I.P Loans	3,997,745	3,997,745	-
Other Long Term Loans	511,500	511,500	-
HCC Transferred Debt	521,347	518,986	(2,361)
Interest on Finance Lease	218,998	214,662	(4,336)
Interest on Service Concession Arrangements (including PFIs)	8,984,691	8,995,048	10,357
Interest Payable to External Organisations	8,556	(2,242)	(10,798)
	<hr/> 24,813,233	<hr/> 24,806,095	<hr/> (7,138)
<u>Deduct</u>			
Investment Income	<hr/> (3,541,004)	<hr/> (3,503,396)	<hr/> 37,608
	<b>21,272,229</b>	<b>21,302,699</b>	<b>30,470</b>
<b>Provision for Repayment of Debt</b>	<b>10,775,990</b>	<b>5,909,524</b>	<b>(4,866,466)</b>
<b>Debt Management Costs</b>	<b>310,942</b>	<b>323,394</b>	<b>12,452</b>
	<hr/> <b>32,359,161</b>	<hr/> <b>27,535,617</b>	<hr/> <b>(4,823,544)</b>

There is a £4.8m underspend against the revised estimate. This is principally due to the City Council resolving to use part of the City Deal Grant to repay the principal on borrowing. This reduced the provision for the repayment of debt to be met from revenue by £4.9m. This saving has been appropriated into the City Deal earmarked reserve in accordance with the Revised Minimum Revenue Provision for the Repayment of Debt Policy approved by the City Council on 3 June 2014. This reserve will be required to finance future capital expenditure on the City Deal.

# Agenda Item 13

Agenda item:

**Decision maker:** Governance and Audit and Standards Committee

**Subject:** Treasury Management Monitoring Report for the First Quarter of 2014/15

**Date of decision:** 26 September 2014

**Report by:** Head of Financial Services & Section 151 Officer

**Wards affected:** All

**Key decision:** No

**Budget & policy framework decision:** No

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## 1. 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 as at 30 June 2014 and of the risks attached to that position.

## 2. Recommendations

That the following actual treasury management indicators for the first quarter of 2014/15 be noted:

(a) The Council's debt at 30 June:

<b>Prudential Indicator</b>	<b>Limit</b> £m	<b>Actual</b> £m
Authorised Limit	511	441
Operational Boundary	445	441

(b) The maturity structure of the Council's borrowing was

	<b>Under 1 Year</b>	<b>1 to 2 Years</b>	<b>3 to 5 Years</b>	<b>6 to 10 Years</b>	<b>11 to 20 Years</b>	<b>21 to 30 Years</b>	<b>31 to 40 Years</b>	<b>41 to 50 Years</b>
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	20%	20%	30%	30%	40%	40%	60%	70%
Actual	4%	1%	3%	5%	9%	13%	16%	49%

(c) The Council's sums invested for periods longer than 364 days at 30 June 2014 were:

	<b>Prudential Limit</b>	<b>Quarter 1 Actual</b>
	£m	£m
Maturing after 31/3/2015	170	70
Maturing after 31/3/2016	158	59
Maturing after 31/3/2017	124	8

(d) The Council's fixed interest rate exposure at 30 June 2014 was £262m, ie. the Council had net fixed interest rate borrowing of £262m. This is within the Council's approved limit of £332m.

(e) The Council's variable interest rate exposure at 30 June 2014 was (£224m), ie. the Council had net variable interest rate investments of £224m. This is in excess of the Council's approved limit of (£196m).

### **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 2014/15



#### 4. Reasons for Recommendations

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.

#### 5. Equality impact assessment (EIA)

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

#### 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. Finance comments

All financial considerations are contained within the body of the report and the attached appendices.

.....  
Signed by Head of Financial Services and Section 151 Officer

#### 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:

<b><u>Title of document</u></b>	<b>Location</b>
1 Treasury Management Files	Financial Services
2	

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the Governance and Audit and Standards Committee on 26 September 2014.

.....  
Signed by: the Chair of the Governance and Audit and Standards Committee

**TREASURY MANAGEMENT MONITORING REPORT FOR THE FIRST QUARTER OF  
2014/15**

**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 18 March 2014 provide the framework within which treasury management activities are undertaken.

**2. ECONOMIC BACKGROUND**

After strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, and 0.8% in Q1 2014, it appears very likely that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster through the threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, now broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly the slack is being used up. Accordingly, markets are expecting a first increase in base rate around the end of 2014.

There was a sharp fall in inflation (CPI), reaching 1.5% in May, the lowest rate since 2009. Consumer price inflation increased to 1.9% year-on-year to June 2014. Although this continues the trend of below 2% inflation during 2014, the rise was stronger than expected and is only the second time since June 2013 that inflation has risen compared to the previous month. Forward indications are that inflation is likely to fall overall in 2014 to possibly as low as 1%. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed in this quarter.

In June, the Federal Reserve continued with its monthly \$10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from \$85bn to \$35bn and are expected to stop by Q3 2014, providing strong economic growth continues this year. First quarter GDP figures were depressed by exceptionally bad winter weather, but growth rates since then look to be recovering well.

The Eurozone is facing an increasing threat from deflation. In May, the inflation rate fell further, to reach 0.5%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB did take some rather limited action in June to loosen monetary policy in order to promote growth.

### 3. INTEREST RATE FORECAST

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.40%	4.40%
25yr PWLB rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	4.90%	5.00%
50yr PWLB rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	4.90%	5.00%

Capita Asset Services undertook a review of its interest rate forecasts in May, after the Bank of England's Inflation Report. However, more recent developments to the Bank of England's forward guidance have necessitated a second updating in this quarter carried out on 30 June. This latest forecast now includes a first increase in Bank Rate in quarter 1 of 2015 (previously quarter 4 of 2015).

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded during 2013 and the first quarter of 2014 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are currently very positive in indicating that growth prospects are also strong for the rest of 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for the recovery to become more firmly established. One drag on the economy has been that wage inflation has been significantly below CPI inflation, so disposable income and living standards were being eroded, (although income tax cuts had ameliorated this to some extent). However, recent falls in inflation have created the potential for the narrowing of this gap and it could narrow further during this year, especially if there is also a recovery in growth in labour productivity (leading to increases in pay rates). With regard to the US, the main world economy, it faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although labour force participation rates remain lower than ideal.

As for the Eurozone, concerns subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy. It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

#### 4. NET DEBT

The Council's net borrowing position excluding accrued interest at 30 June 2014 was as follows:

	1 April 2014	30 June 2014
	£'000	£'000
Borrowing	354,822	353,980
Finance Leases	3,775	3,676
Service Concession Arrangements (including PFIs)	83,373	83,297
<b>Gross Debt</b>	<b>441,970</b>	<b>440,953</b>
Investments	(296,761)	(315,659)
<b>Net Debt</b>	<b>145,209</b>	<b>125,294</b>

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. However these reserves are fully committed and are not available to fund new expenditure. The £84m of borrowing taken in 2011/12 to take advantage of the very low PWLB rates and the receipt of £48.8m of City Deal Grant on 28 March 2014 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 2014/15.

The Council's debt at 30 June was as follows:

<b>Prudential Indicator 2013/14</b>	<b>Limit £m</b>	<b>Position at 30/6/14 £m</b>
Authorised Limit	511	441
Operational Boundary	445	441

Short term interest rates up to 10 years have generally risen where-as longer term rates have generally fallen during the first quarter of 2014/15. The low points were seen in April and May.

### **PWLB certainty rates for the first quarter of 2014/15**

	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
<b>Low</b>	1.20%	2.50%	3.42%	4.12%	4.08%
<b>Date</b>	08/04/14	14/04/14	16/05/14	16/05/14	16/05/14
<b>High</b>	1.47%	2.85%	3.66%	4.30%	4.28%
<b>Date</b>	17/06/14	20/06/14	20/06/14	03/04/14	02/04/14
<b>Average</b>	1.29%	2.66%	3.56%	4.22%	4.18%

## 6. MATURITY STRUCTURE OF BORROWING

In recent years the cheapest loans have often been very long loans repayable at maturity.

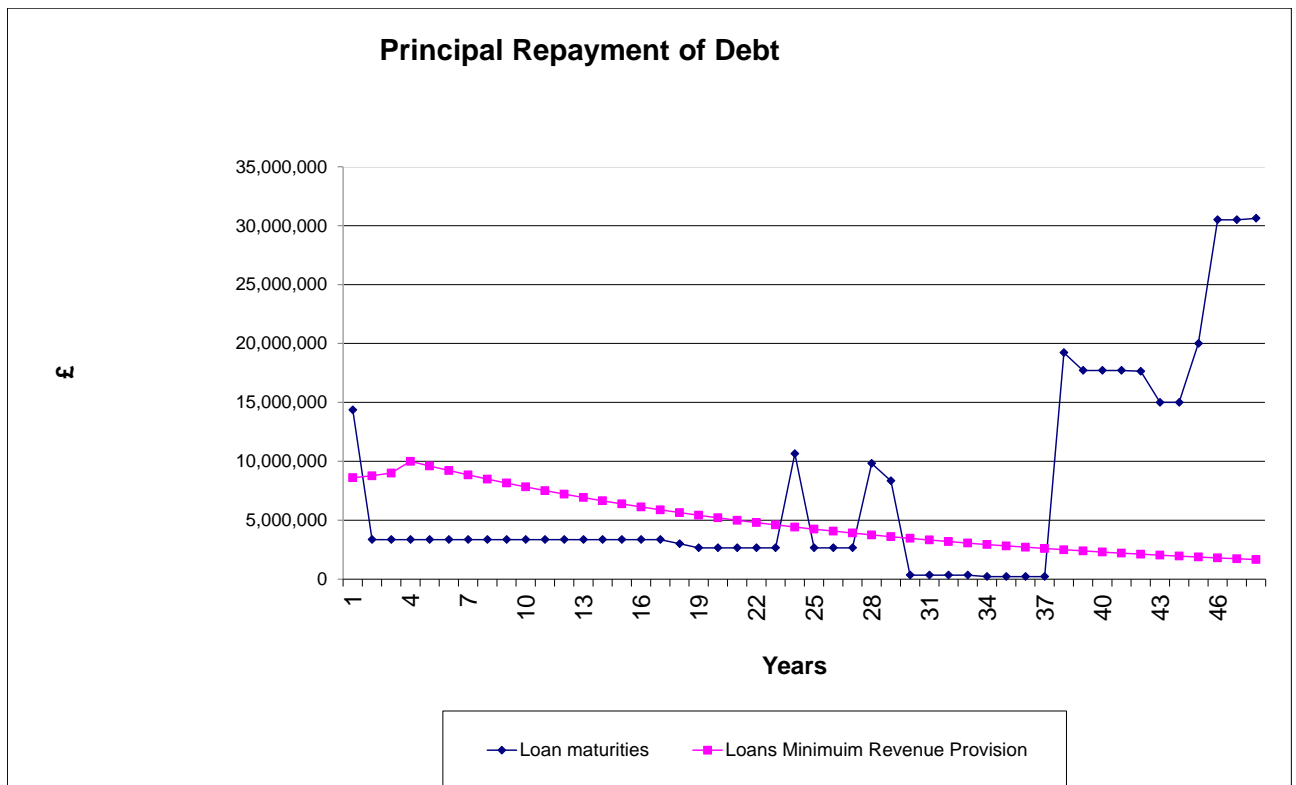
During 2007/08 the Council rescheduled £70.8m of debt. This involved repaying loans from the Public Works Loans Board (PWLB) early and taking out new loans from the PWLB with longer maturities ranging from 45 to 49 years. The effect of the debt restructuring was to reduce the annual interest payable 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 45 years. The remaining £84m is repayable in equal instalments of principal over periods of between 17 and 27 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 49% 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 8 and 10). 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 18 March 2014 together with the City Councils actual debt maturity pattern are shown below.

	<b>Under 1 Year</b>	<b>1 to 2 Years</b>	<b>3 to 5 Years</b>	<b>6 to 10 Years</b>	<b>11 to 20 Years</b>	<b>21 to 30 Years</b>	<b>31 to 40 Years</b>	<b>41 to 50 Years</b>
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	20%	20%	30%	30%	40%	40%	60%	70%
Actual	4%	1%	3%	5%	9%	13%	16%	49%

## **7. 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 been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low base rate and other extraordinary measures such as the Funding for Lending Scheme.

The Council held £316m of investments as at 30 June 2014 (£297m at 31 March 2014) and the investment portfolio yield for the first three months of the year is 0.76%.

The Council's budgeted investment return for 2014/15 is £1,531k, and performance for the year to date is £234k above budget. This is due to having more surplus cash than anticipated to invest and being able to obtain better returns than was anticipated in a low interest rate environment.

The receipt of the £48.8m City Deal Grant at the end of 2013/14 and receipts of Government revenue grants early in 2014/15 were invested in AAA rated instant access money market funds pending reinvestment over a longer term. AAA rated money market funds offer a generally very safe form of investment as they are well diversified and consist investments of a short duration. However, money market funds often invest in the same financial institutions as the Council invests in directly, and different money market funds can invest in the same financial institutions. This can result in a concentration of risk that cannot be controlled. Therefore the 2014/15 Annual Investment Strategy approved by the City Council on 18 March 2014 limited investments in money market funds to £80m. The aggregate limit for investments in money market funds was exceeded on 22 days between 1 April and 8 May by up to £12.7m.

## 8. SECURITY OF INVESTMENTS

The risk of default has been managed through investing only in financial institutions that meet minimum credit ratings, limiting investments in any institution to £26m and spreading investments over countries and sectors.

The 2014/15 Treasury Management Policy approved by the City Council on 18 March 2014 only permits deposits to be placed with the Council's subsidiaries, namely MMD (Shipping Services) Ltd, the United Kingdom Government, other local authorities, certain building societies, Hampshire Community Bank, and institutions that have the following credit ratings:

### Short Term Rating

F2 (or equivalent) from Fitch, Moody's (P-3) or Standard and Poor (A-3)

### Long Term Rating

Triple B (triple BBB category) or equivalent from Fitch, Moody's or Standard & Poor

### Viability / Financial Strength Rating

bbb from Fitch or C- from Moody's

### Support Rating

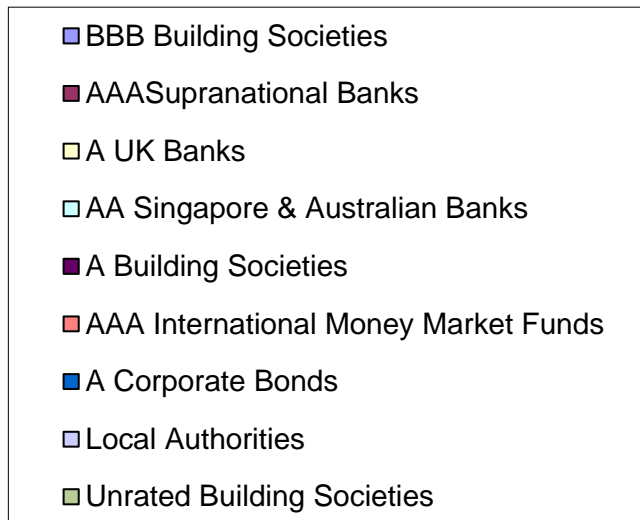
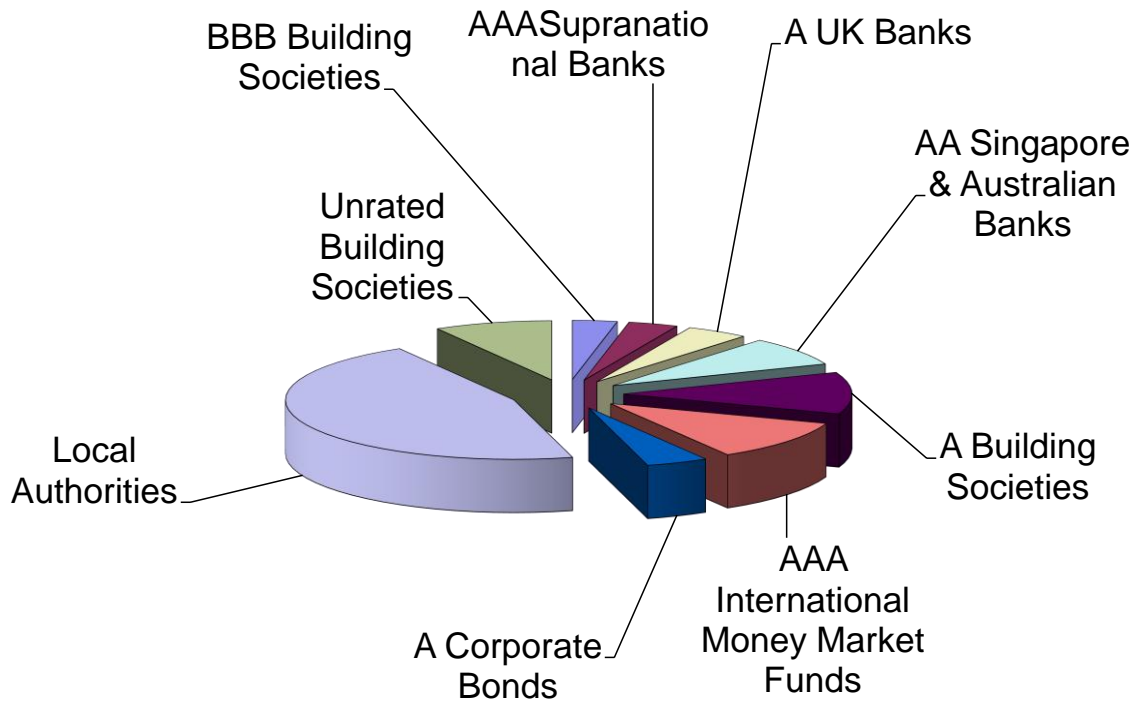
5 from Fitch

Under the Council's Annual Investment Strategy counter parties are categorised by their credit ratings for the purposes of assigning investment limits.

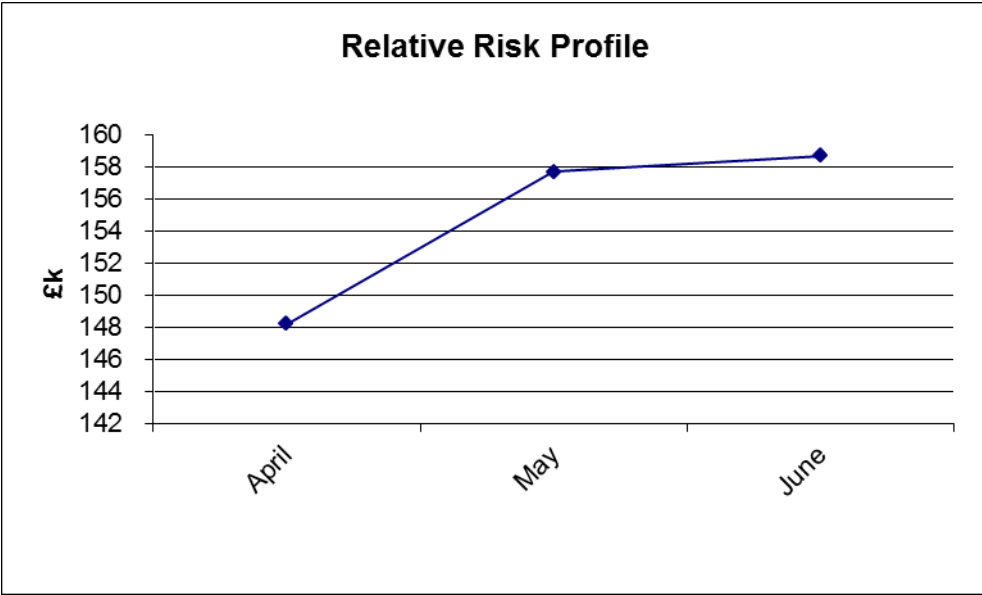
At 30 June 2014 the City Council had on average £6.1m invested with each institution.

The chart below summarises how the Council's funds were invested at 30 June.

## Where the Council's Funds Are Invested



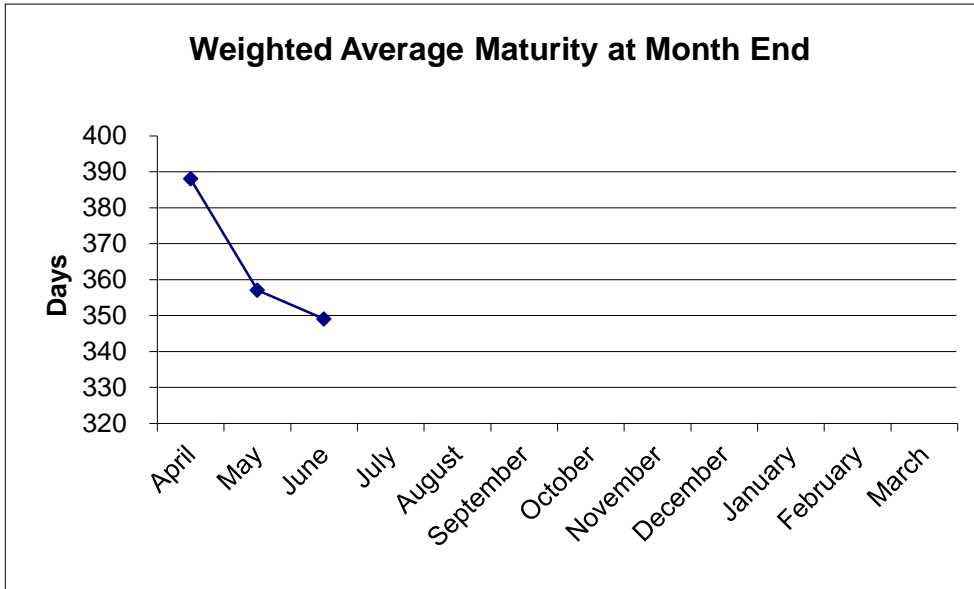
The credit rating agencies publish default rates for each rating category. Multiplying these default rates by the amount invested in each credit rating category provides a measure of risk that can be used as a benchmark to determine whether the City Council's investment portfolio is becoming more or 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 2014/15 as investments in AAA rated instant access money market funds were reinvested over a longer duration with counter parties with double A and single A credit ratings.

## 9. LIQUIDITY OF INVESTMENTS

The weighted average maturity of the City Council's investment portfolio started at 388 days in April and decreased to 349 days in June as long term investments matured and were not replaced due to uncertainties over the Council's future cash flows and over the timing of the first increase in base rate which will drive up the returns on the Council's investments. 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 £43.4m 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 18 March 2014 is shown below.

<b>Maturing after</b>	<b>Limit</b>	<b>Actual</b>
	£m	£m
31/3/2015	170	70
31/3/2016	158	59
31/3/2017	124	8

## 10. 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 18 March 2014 is shown below.

	<b>Limit</b>	<b>Actual</b>
	£m	£m
Maximum Projected Gross Borrowing – Fixed Rate	398	354
Minimum Projected Gross Investments – Fixed Rate	(66)	(92)
Fixed Interest Rate Exposure	332	262

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 18 March 2014 is shown below.

	<b>Limit</b>	<b>Actual</b>
	<b>£m</b>	<b>£m</b>
Minimum Projected Gross Borrowing – Variable Rate	-	-
Maximum Projected Gross Investments – Variable Rate	(196)	(224)
Variable Interest Rate Exposure	(196)	(224)

The Council's investments of surplus cash are higher than anticipated, principally due to the receipt of all of the £48.8m City Deal Grant on 28 March 2014 which had been expected to be received at a later date and be phased over the next two financial years. In addition, the proportion of the investment portfolio consisting of short term investments of under one year, which are not considered to be fixed rate because of their short term nature, has increased from 64% on 1 April to 71% on 30 June as long term investments of over a year have matured and not been replaced. This has resulted in the variable interest rate exposure limit of (£196m - investments) being exceeded by £28m.

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. However, this risk is limited by the very low market interest rates available for investments.

The risk of a 0.5% increase in interest rates to the Council is as follows:

<b><u>Effect of +/- 0.5% Rate Change</u></b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>	<b>2016/17 £'000</b>
Long Term Borrowing	2	55	55
Investment Interest	(839)	(967)	(290)
<b>Net Effect of +/- 0.5% Rate Change</b>	<b>(837)</b>	<b>(912)</b>	<b>(235)</b>



# Agenda Item 14

## **AGENDA ITEM 14**

Notice of Motion e) from Council Meeting held on 15 July 2014  
Resolution

**RESOLVED** In the light of recent events surrounding former Cllr Mike Hancock, whilst an elected individual of this authority, the Council believes that an urgent review of the city's Safeguarding Procedure should take place to ensure that it is robust enough to protect the public. Members of the public have a right to feel safe when in contact with any elected member of this council.

A citizen of Portsmouth was let down by a former member of this council through his inappropriate actions; the previous Leader of this council for his lack of appropriate actions; and the two liberal democrat members of the investigation sub-committee who sat on the case of a vulnerable resident regards former Cllr M Hancock. This council requests in respect of members facing serious allegations, that the Monitoring Officer prepare a report for the Governance and Audit and Standards committee on how the council's current Safeguarding Procedure should be used to best protect the public and members when a complaint is made by a vulnerable constituent.

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# Agenda Item 15

## **AGENDA ITEM 15**

**Notice of Motion f) from Council Meeting held on 15 July 2014**  
**Resolution**

### **RESOLVED that**

**The City Council is concerned at the conduct of one its former members who has admitted to abusing his position of trust. He has admitted to harassing a resident, making repeated unwanted advances and conduct that falls below the standards expected of a Parliamentarian or a member of this Council.**

**Over the last four years the Council has spent tens of thousands of pounds investigating this matter, both through court and legal fees and officer time - This at a time when the Council is faced with making cuts to front line services.**

**The Council believes that this is an unsatisfactory situation.**

**The Council therefore requests the Governance and Audit and Standards Committee to do the following:**

- 1. Instruct officers to prepare a detailed breakdown of the full costs of this affair**
- 2. To write to all members with this information**
- 3. To write to the former member requesting that given this unnecessary burden on the taxpayers of Portsmouth that now he has admitted to these appalling actions he might chose to repay this sum and thus ease the financial burden on residents**
- 4. To consider legal action to reclaim these costs if he refuses.**

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