

Portsmouth
CITY COUNCIL

**STATEMENT
OF
ACCOUNTS
2012/13**

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Chris Ward
Head of Finance & S151 Officer

Date

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

Date

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

TABLE OF CONTENTS

EXPLANATORY FOREWORD	4
STATEMENT OF RESPONSIBILITIES	24
MOVEMENT IN RESERVES STATEMENT	25
COMPREHENSIVE INCOME & EXPENDITURE STATEMENT	26
BALANCE SHEET	27
CASH FLOW STATEMENT	29
NOTES TO THE FINANCIAL STATEMENTS	30
1. STATEMENT OF ACCOUNTING POLICIES	30
2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED	43
3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES	44
4. ASSUMPTIONS MADE ON SOURCES OF ESTIMATION UNCERTAINTY	45
5. MATERIAL ITEMS OF INCOME AND EXPENSE	46
6. DISCLOSURE OF THE EFFECT OF A CHANGE IN ACCOUNTING POLICY	46
7. ADJUSTMENTS OF ACCOUNTING AND FUNDING BASIS UNDER	
REGULATIONS	48
8. TRANSFERS TO / FROM EARMARKED RESERVES	50
9. PROPERTY, PLANT & EQUIPMENT	51
10. DATES AND AMOUNTS OF VALUATIONS OF TANGIBLE NON-CURRENT	
ASSETS	54
11. INFORMATION ON ASSETS HELD	55
12. SIGNIFICANT COMMITMENTS FOR FUTURE CAPITAL EXPENDITURE	56
13. INVESTMENT PROPERTIES	56
14. INTANGIBLE ASSETS	57
15. FINANCIAL INSTRUMENTS	58
16. CONSTRUCTION CONTRACTS	64
17. SHORT-TERM DEBTORS	65
18. CASH AND CASH EQUIVALENTS	66
19. ASSETS HELD FOR SALE	66
20. SHORT-TERM CREDITORS	67
21. PROVISIONS	67
22. UNUSABLE RESERVES	69
23. CASH FLOW STATEMENT – OPERATING ACTIVITIES	75
24. CASH FLOW STATEMENT – INVESTING ACTIVITIES	75
25. CASH FLOW STATEMENT – FINANCING ACTIVITIES	76
26. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS	76
27. ACQUIRED AND DISCONTINUED OPERATIONS	80
28. TRADING OPERATIONS	81
29. AGENCY SERVICES	82
30. POOLED BUDGETS	82
31. MEMBERS ALLOWANCES	83
32. OFFICERS REMUNERATION	84
33. EXTERNAL AUDIT COSTS	87
34. DEDICATED SCHOOLS GRANT	87
35. GRANT INCOME	88
36. RELATED PARTIES	89
37. CAPITAL EXPENDITURE AND CAPITAL FINANCING	91
38. LEASES	92
39. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS	96
40. TERMINATION BENEFITS	99
41. LIABILITY RELATING TO DEFINED BENEFIT PENSION SCHEME	99
42. PENSION SCHEMES ACCOUNTED AS DEFINED CONTRIBUTION SCHEMES	105
43. LONG TERM DEBTORS	106
44. OTHER LONG TERM LIABILITIES	106
45. HERITAGE ASSETS: FIVE – YEAR SUMMARY OF TRANSACTIONS	107
46. HERITAGE ASSETS: FURTHER INFORMATION	108

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

47.	EVENTS AFTER THE REPORTING PERIOD.....	109
48.	TRUST FUNDS	110
49.	EXIT PACKAGES.....	112
50.	EXCEPTIONAL ITEMS.....	113
51.	OTHER COMPANIES.....	113
52.	LOSS ON DISPOSAL OF NON CURRENT ASSETS	114
	COLLECTION FUND	115
	HOUSING REVENUE ACCOUNT (HRA).....	119
	MOVEMENT ON THE HRA BALANCE	121
	NOTES TO THE HOUSING REVENUE ACCOUNT (HRA).....	122
	GLOSSARY OF TERMS.....	131

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

EXPLANATORY FOREWORD
Financial Year Ended 31st March 2013

Introduction

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

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

- The overall financial position of the City Council as a single entity and relevant financial information on the City Council and its investments
- The cost of the services provided by the City Council for the year
- How the cost of the Council's Services have been financed
- Any surpluses or deficits made by the Council in the year
- The value of the Council's assets, liabilities and reserves at the end of the year

Financial Statements 2012/13 – Commentary

The Financial Statements comprise the following:

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

The Statement of Responsibilities for the Statement of Accounts

This statement sets out the respective responsibilities of the City Council and the Head of Finance & S151 Officer (i.e. the Chief Financial Officer of the Council) for the accounts. In particular, it highlights the requirement of the Head of Finance & S151 Officer to state that the Statement of Accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2013.

Changes in Accounting Standards or Accounting Policies

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

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

The Comprehensive Income & Expenditure Statement (CIES)

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

- Other Operating Expenditure – Other operating expenditure is unrelated to direct revenue expenditure on services. Other net operating expenditure added net expenditure of £12.0m. The main items being the loss from sales of non current assets of £11.5m.
- Financing and Investment Income & Expenditure – Income and expenditure relating to the Council’s long and short term investments and any financing costs associated with the acquisition of Non Current Assets. These activities added a net cost of £26.4m with the main contributors being the cost of servicing the Council’s £373.1m debt portfolio amounting to £15.7m but offset by income from investments of £4.1m. A further £8.4m was added relating to the financing and investment activities of Pension Schemes however, this has a financially neutral effect on the Council as the cost is reversed out by regulation in the Movement in Reserves Statement.
- Taxation & Non Specific Grant Income – These are the main revenue and capital funding sources received from the Government and Local Taxpayers. In total, the Council received £219m of funding from these sources of which just under a third was from Local Taxpayers and the majority of the remainder from Central Government. This highlights the Council’s reliance on Central Government to fund services.
- Deficit / (Surplus) on the Provision of Services – Taking all of the above into account (i.e. the net costs of service provision less income from Government and Local Taxpayers) the City Council made a surplus of £5.8m in providing services to the public. This compares to a deficit of

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

The overall deficit of £17.4m is not the entirety of the entries required to determine the overall impact on the General Reserves (i.e. the Council Taxpayer) of the Council. There are a number of further entries required to the Accounts contained within the Movement in Reserves Statement which are of a statutory nature and are peculiar to Local Authorities; these are described in the following section.

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

The format of the Comprehensive Income & Expenditure Statement is quite different to the way in which City Council Services are managed, delivered and budgeted for and therefore it is not readily comparable to the City Council's budget, which is prepared in a form consistent with the way in which the Council is organised. Note 26 shows the Council's expenditure and income by portfolio.

Movement in Reserves Statement (MIRS)

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

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

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

As a consequence of all of the adjustments required by statute and other transfers to earmarked reserves, the Council's main General Fund Balance increased in the year by £0.1m, representing the Council's overall performance on its General Fund activities. It is important to note however, that this increase in General Reserves incorporates schools. The actual performance, in terms of the impact on the General Reserves of the Council, analysed between those generally available to the Council and those available to schools, is as follows:

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

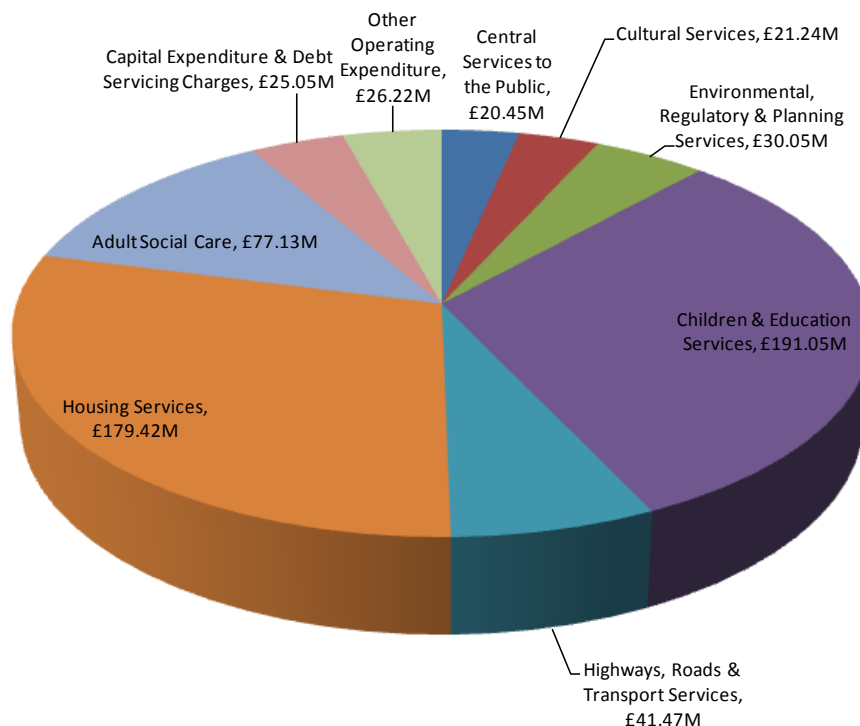
Description	Schools (General Fund)	Rest of City Council (General Fund)	Total General Fund Balance
	£m	£m	£m
Balance brought forward as at 1st April 2012	(8.6)	(24.1)	(32.7)
Contribution (to) / from Reserves	(0.6)	0.5	(0.1)
Balance carried forward as at 31st March 2013	(9.2)	(23.6)	(32.8)

NB. Brackets represent surpluses

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

To demonstrate how the £0.5m withdrawal from General Reserves of the Rest of the City Council arose in 2012/13, an illustration of the City Council's Gross Expenditure (excluding the transfer of the School's surplus) followed by an illustration of its sources of finance is provided below.

City Council Gross Revenue Expenditure 2012/13
£612.08 Million

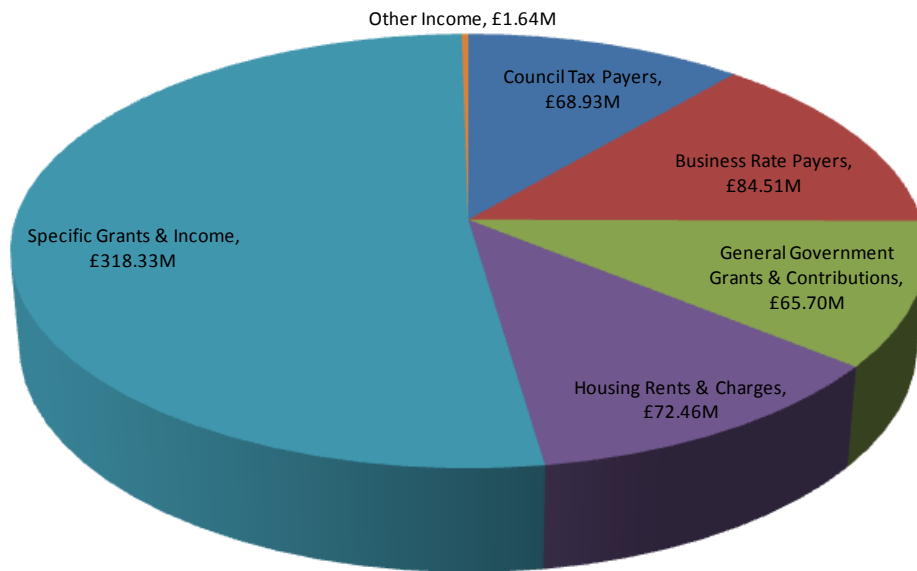


Please note that some expenditure types have been amalgamated for ease of presentation and understanding

**PORTSMOUTH CITY COUNCIL
Annual Report 2012/13**

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

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



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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Main Underspendings against Budget:

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

Main Overspendings against Budget:

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

schemes which are aimed at generating on-going cashable efficiencies for the Council over the medium term.

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

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

The Balance Sheet

The Balance Sheet shows the totality of the City Council's assets and liabilities in respect of all of its activities with the outside world as at 31st March 2013. In particular, it shows:

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

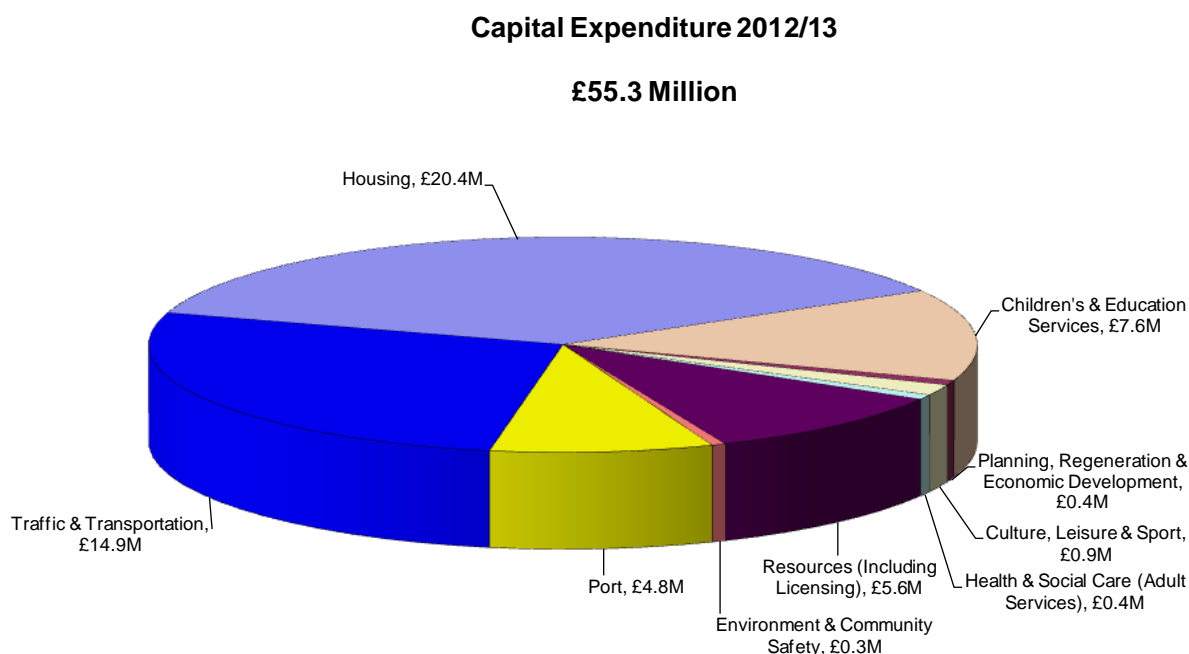
PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Non Current Assets

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

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

This expenditure was made in the following areas:



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

<u>Source of Finance</u>	<u>£m</u>
Receipts from Sales of Capital Assets	5.4
External Grants and Contributions	27.5
Revenue & Reserves	16.8
Long Term Borrowing & Other Adjustments	5.6
Total	55.3

PORTSMOUTH CITY COUNCIL Annual Report 2012/13

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

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

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

Long Term Liabilities

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

Current Assets

In terms of current assets, the City Council was owed £43.9m in debt excluding monies owed from Government (which is up by £0.6m from the previous year). Of this total debt, £16.1m is the amount that is estimated to be uncollectable and is the accumulated amount that has been set aside in the event that it is ultimately written off.

Excluding monies owed from Government, the overall amount of debt owed to the Council has increased by 1.4%. This increase illustrates a mixed picture where some of the key categories of debt due to the Council have fallen, Housing Rents in particular. Other categories such as Sundry Debt have increased markedly.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

The main reasons for the changes relate to the following:

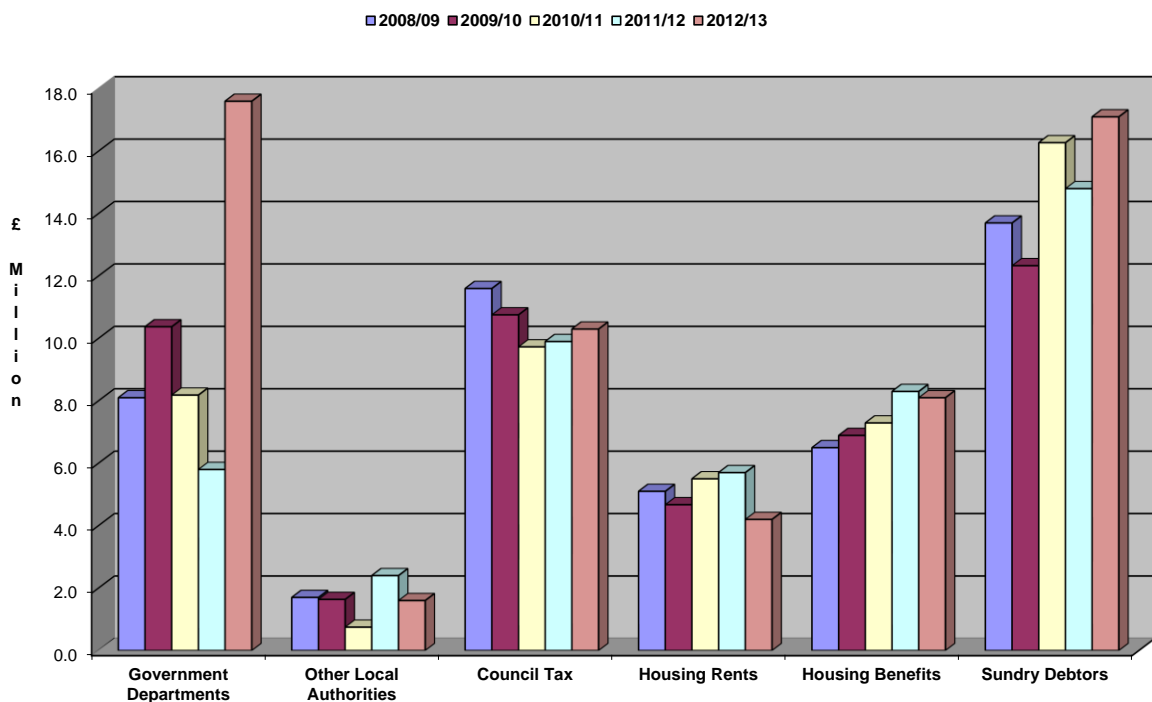
- Other Local Authorities – the sums owed have reduced by £0.9m however, this debt is fairly low risk and is likely to be paid.
- Council Tax – the sums owed by Council Taxpayers has increased slightly by 2.8% and now stands at £10.3m. The in-year collection of Council Tax however, remained the same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

The City Council wrote-off just £563,000 of Council Tax Debt last year but would normally expect to write off approximately £1.3m in a “normal year” based on an ultimate collection rate of 98.3% of all Council Tax billed. This therefore, more than accounts for the £0.3m (or 2.8%) increase in debt during the year.

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

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

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



PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

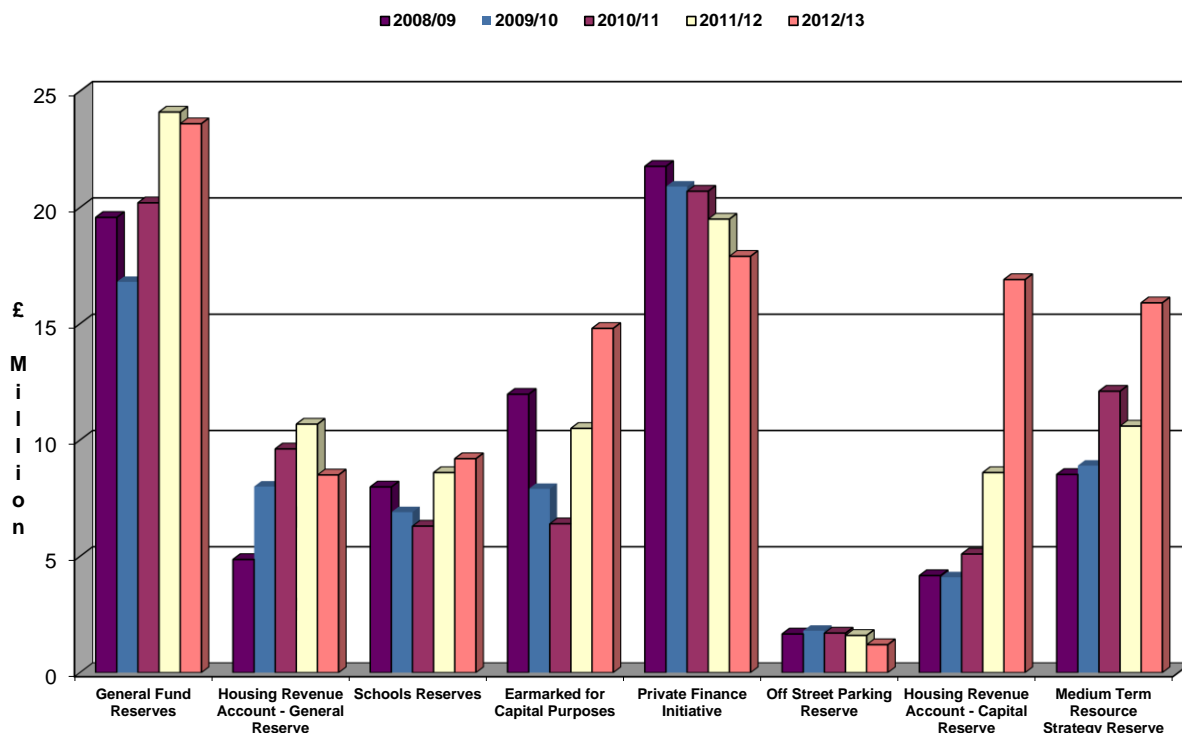
Current Liabilities

On the 31 March 2013, the City Council itself, owed suppliers £74m for goods and services received in 2012/13 of which £48m was for sundry items and sums owed to contractors working on capital schemes. Whilst this may appear to be a significant amount of money that the Council has not paid to suppliers, it does reflect normal business and the City Council's payment performance in 2012/13 stood at 88% of all undisputed invoices paid within terms.

Reserves

The reserves held on the balance sheet fall into two categories, Useable Reserves (that can be spent) and Unusable Reserves (that cannot be spent). The main Useable Reserves that existed at the 31st March 2013 are illustrated below including a comparison of how they have moved over the last 5 years.

Balances of Main Distributable Reserves - £ Million



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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

At present, the Council has a policy of maintaining a minimum level of General Fund Reserves of £5.5m in 2012/13 and rising to £6.0m for future years; any excess over and above this is used to fund Council Services.

Housing Revenue Account General Reserve - Balance £8.5m

The HRA General Reserve reduced by £2.2m in the year from £10.7m in 2011/12 to £8.5m in 2012/13. These HRA General Reserves, as well as the General Fund Reserves above, are held for two purposes. Firstly, to act as a general contingency against unanticipated expenditure and the potential to fall into deficit. Secondly, as a means of “smoothing out” any shortfalls between the overall amount of funding that the Council receives against the costs of delivering stable service levels.

Schools Reserves – Balance £9.2m

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

Earmarked for Capital Purposes – Balance £14.8m

This is a reserve that is maintained as a source of funding for the Capital Programme and is at present fully committed for that purpose. The reserve increased in the year by £4.3m mainly arising from the need to finance capital expenditure in future years.

Private Finance Initiative – Balance £17.9m

This reserve accumulates any surplus of Government Grants received in respect of Private Finance Initiatives (PFI) over and above the debt financing costs associated with those schemes. Whilst surpluses are realised in the early years of these typically 20-year plus schemes, deficits will arise in the later years. This reserve is maintained to fund those deficits in later years. In the year, the reserve decreased by £1.6m reflecting the net deficit between the Unitary Payments made to the PFI contractor and the PFI Grant, interest and contributions accruing to the reserve.

HRA Capital Reserve – Balance £16.9m

The reserve supports future spending on capital projects relating to Council Housing. In the year, the reserve increased by £8.2m reflecting the contributions made to this reserve to fund future capital investment relating to Council Housing schemes. This reserve is all fully committed to financing that programme.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Medium Term Resource Strategy Reserve – £15.9m

This reserve was created as a means to fund spend to save schemes to facilitate efficiencies and go some way towards addressing the Council's future years' forecast deficits. It is also used to provide for any redundancy costs associated with such schemes and any other service rationalisation proposals which give rise to on-going savings. The reserve has increased over the year by £5.2m mainly due to Council decisions to make contributions of £7.4m arising from the overall City Council underspend for the financial year 2011/12 and forecast underspends in 2012/13. The current balance of £15.9m is largely committed to funding schemes previously approved by the Council or future anticipated redundancy costs.

Net Assets (Overall Net Worth)

In the year, the Council's Net Assets (or the value of the Council) reduced by £17m, the main movements being attributable to a deterioration of £29m in Pension Scheme deficits.

The Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties whether for revenue or capital purposes. It is intended to give an indication of the movements in the Council's cash balances over the year and so excludes all accounting entries, such as depreciation charges, that do not result in physical cash payments or receipts. In the year the Council's cash (and cash equivalents) position reduced by £47m largely due to the significant decrease in investments held in money market funds on the Balance Sheet date compared with the previous year.

Notes to the Financial Statements

The core financial statements have been described above and comprise:

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

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

PORTSMOUTH CITY COUNCIL Annual Report 2012/13

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

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

- The accounts are prepared on an accruals basis as opposed to a cash basis
- Most assets are valued at open market value or depreciated replacement cost and are depreciated to reflect the use of that asset
- Central Support Services (for example, Finance, IT, Human Resources, Asset Management and Legal Services) have been apportioned to Services on varying bases, which represent a realistic approximation of the benefits received by those services
- The cost of pensions contained within the accounts represents the value of benefits earned by employees as opposed to the amount that the employer has contributed to those pension schemes on the employees' behalf. Any unfunded liabilities on the pension fund are represented in the balance sheet and amount to £351m at 31 March 2013 (i.e. a Pension Fund deficit)

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

The Collection Fund

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

The Collection Fund is intended to break even but is dependent largely on the robustness of the estimates of the amount of Council Tax that will be collected. At the beginning of the year, the fund was in deficit in the sum of £419,000 and when the Budget was revised in February 2013 it was anticipated that the fund would be in deficit in the sum of £200,000. The Budget for 2013/14 was prepared on this basis i.e. that there would be a repayment of this deficit of £200,000 during 2013/14.

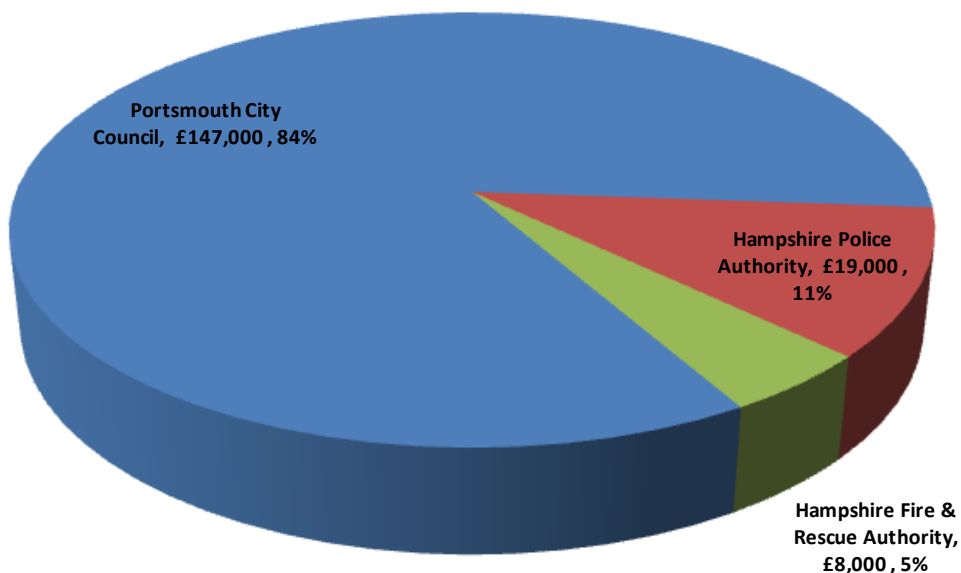
**PORTSMOUTH CITY COUNCIL
Annual Report 2012/13**

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

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

The City Council administers the Collection Fund and collects the Council Tax on behalf of the City Council, Police Authority and the Hampshire Fire & Rescue Authority and therefore any surplus or deficit on the fund is shared with them. Should the unplanned improvement of £173,000 remain, this would be shared as follows:

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



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

PORTSMOUTH CITY COUNCIL Annual Report 2012/13

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

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

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

The Housing Revenue Account (HRA)

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

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

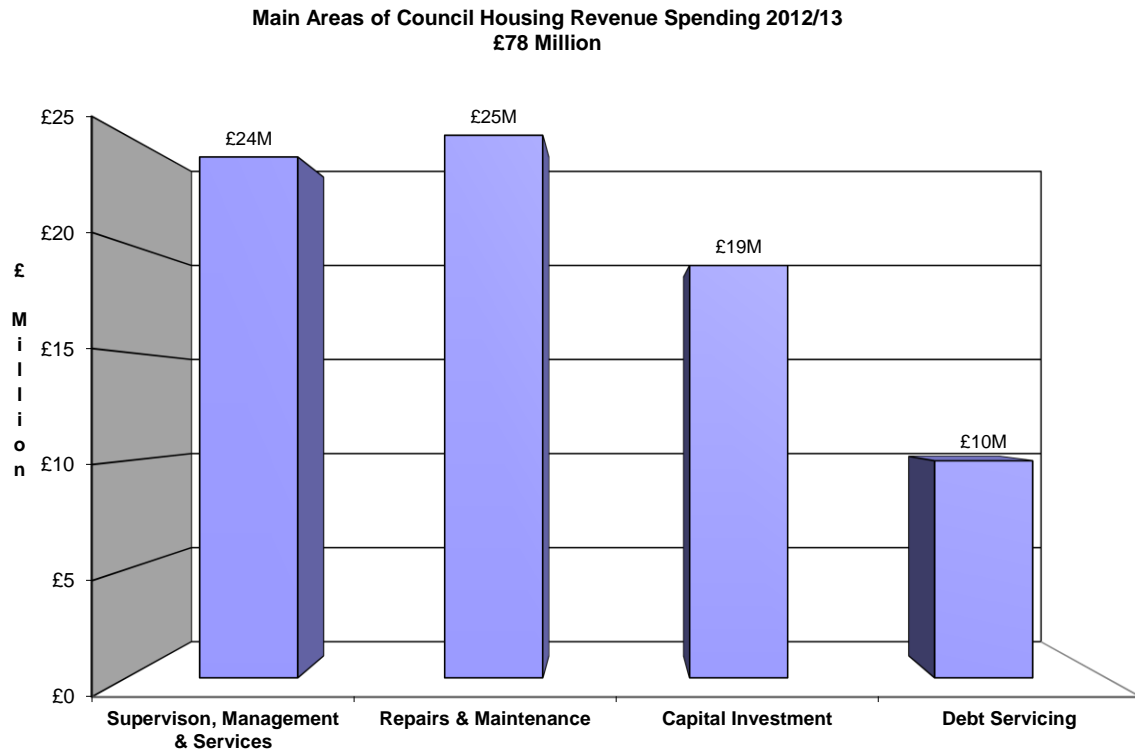
The Housing Revenue Account has been prepared on the same basis as the Comprehensive Income & Expenditure Statement, in that it also presents a surplus / deficit that is comparable to the private sector. Again, this is not the entirety of the entries required to determine the overall impact on the HRA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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Overall the HRA made a surplus of £11.5m in the year 2012/13. This represents a major reduction in cost compared with 2011/12 (£82.3m deficit) of £93.8m. As mirrored in the overall Comprehensive Income & Expenditure Statement for the City Council, this improvement has mainly been caused by the exceptional payment to the Government for the release from the HRA Subsidy system of £88.6m in the previous year which was a “one off” payment for that year only. Whilst the HRA made a surplus, the accounting arrangements for Local Authorities are such that many of these charges such as impairment and the exceptional payment are not passed on to the Council Rent payer in a single year, rather they are reversed in the Movement in Reserves Statement and the charges spread over future years. Equally, the HRA is able to fund Capital Expenditure directly. The combination of all of those adjustments allowed under statute turn the £11.5m surplus into a £0.7m surplus.

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

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



PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

The HRA Reserve now stands at £8.5m compared with £10.7m at 31 March 2012 and is held as an overall contingency to avoid falling into deficit and to provide support to future years budgets where income levels are not sufficient to meet service needs.

The HRA continues to maintain a healthy position. Current estimates indicate that the HRA will need to sustain deficits over the short term but then even out over the medium term.

Conclusion

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

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

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

In addition to this, the Housing Revenue Account made a deficit of £2.2m which was £1.7m more than planned. The Account continues to be robustly managed with healthy projections over the medium term.

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

STATEMENT OF RESPONSIBILITIES

The Authority's responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Finance and Section 151 Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

The responsibilities of the Head of Finance and Section 151 Officer

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

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

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

The Head of Finance and Section 151 Officer has also:

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2013.

Signed

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

MOVEMENT IN RESERVES STATEMENT

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

	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account Balance £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserve £'000
Balance at 31 March 2011 carried forward	(26,519)	(53,737)	(9,619)	(15,017)	(1,028)	(18,862)	(124,782)	(508,807)	(633,589)
Movement in reserves during 2011/12									
Deficit on the provision of services	922	0	82,290	0	0	0	83,212	0	83,212
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	58,972	58,972
Total Comprehensive Expenditure and Income	922	0	82,290	0	0	0	83,212	58,972	142,184
Adjustments between accounting basis & funding basis under regulations	(11,035)	0	(86,855)	5,680	(2,008)	(2,630)	(96,848)	96,848	0
Net Increase / Decrease before Transfers to Earmarked Reserves	(10,113)	0	(4,565)	5,680	(2,008)	(2,630)	(13,636)	155,820	142,184
Transfers to / from Earmarked Reserves	3,930	(7,430)	3,500	0	0	0	0	0	0
Increase / Decrease in Year	(6,183)	(7,430)	(1,065)	5,680	(2,008)	(2,630)	(13,636)	155,820	142,184
Balance at 31 March 2012 carried forward	(32,702)	(61,167)	(10,684)	(9,337)	(3,036)	(21,492)	(138,418)	(352,987)	(491,405)
Movement in reserves during 2012/13									
Deficit or (Surplus) on the provision of services	5,683	0	(11,476)	0	0	0	(5,793)	0	(5,793)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	23,187	23,187
Total Comprehensive Expenditure and Income	5,683	0	(11,476)	0	0	0	(5,793)	23,187	17,394
Adjustments between accounting basis & funding basis under regulations	(15,315)	0	10,795	(767)	1,248	(2,223)	(6,262)	6,262	0
Net Increase / Decrease before Transfers to Earmarked Reserves	(9,632)	0	(681)	(767)	1,248	(2,223)	(12,055)	29,449	17,394
Transfers to / from Earmarked Reserves	9,508	(12,380)	2,872	0	0	0	0	0	0
Increase / Decrease in Year	(124)	(12,380)	2,191	(767)	1,248	(2,223)	(12,055)	29,449	17,394
Balance at 31 March 2013 carried forward	(32,826)	(73,547)	(8,493)	(10,104)	(1,788)	(23,715)	(150,473)	(323,538)	(474,011)

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

BALANCE SHEET

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

24th September 2013.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

CASH FLOW STATEMENT

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of Accounting Policies

General

The Statement of Accounts aims to present a true and fair view of the financial position and transactions of the City Council for the 2012/13 financial year and its financial position at 31st March 2013.

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

Accruals of Income & Expenditure

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

Exceptional Items

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

Prior Period Adjustments, Changes in Accounting Policies and Errors

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

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

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

PORTSMOUTH CITY COUNCIL

Annual Report 2012/13

Non-current Assets

The City Council classifies its non-current assets into the following groupings defined in the Code of Practice on Local Authority Accounting:

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

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

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

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

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

Impairment

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

Depreciation

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

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

PORTSMOUTH CITY COUNCIL Annual Report 2012/13

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

Disposal of Non-current Assets

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

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

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

Investment Properties

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

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

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

Heritage Assets

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

a) Historic Buildings

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

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

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

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

b) Sculptures

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

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

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

c) Memorials

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

d) Museum Collections

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

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

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

e) Archives

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

f) Civic Plate

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

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

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

Impairment and Disposal of Heritage Assets

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

Revenue Expenditure Funded from Capital under Statute

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

PORTSMOUTH CITY COUNCIL

Annual Report 2012/13

Intangible Assets

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

Intangible non current have been valued at historic cost and are fully amortised over the useful lives of the specific assets. Straight line amortisation is applied. Useful lives for software licences will vary according to the length of the software licence that has been granted, but will generally be five to ten years.

Government Grants

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

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

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

Inventories

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

Cash Equivalents

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Provisions

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

Reserves

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

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

Leases

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

a) Finance Leases Where the Council is the Lessee

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

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

b) Finance Leases Where the Council is the Lessor

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

c) Operating Leases

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

Support Services & Overheads

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

Employee Benefits Payable During Employment

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

Employee Termination Benefits

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

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

PORTSMOUTH CITY COUNCIL

Annual Report 2012/13

Retirement Benefits

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

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

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

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

The Local Government scheme and the Pilots National Pension scheme are reported under International Accounting Standard 19 (IAS19) in these accounts. This means that retirement benefits are charged to the service revenue account when they are earned as opposed to when payments are made to the pension funds.

Long-Term Contracts (PFI Accounting Policy)

Private Finance Initiative (PFI) contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. None of the Council's PFI schemes involved up front capital payments by the Council. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the property, plant and equipment used under the contracts on the Balance sheet.

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

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

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

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

PORTSMOUTH CITY COUNCIL Annual Report 2012/13

Events After the Balance Sheet Date

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

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

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

Contingent Assets & Liabilities

Contingent liabilities are disclosed within the Notes to the Financial Statements if there is a possible obligation that may require a payment or transfer of economic benefits in the future.

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

Value Added Tax

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

Financial Liabilities

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Financial assets

Financial assets are classified into two types:

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

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

a) Loans and receivables

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

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

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

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

b) Available for sale Assets

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

PORTSMOUTH CITY COUNCIL Annual Report 2012/13

Maintained Schools

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

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

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

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

Jointly Controlled Operations

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

Solent Local Enterprise Partnership (LEP)

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

The Carbon Reduction Commitment Scheme

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

Landfill Allowances Scheme

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

Apportionment of Interest Costs to the Housing Revenue Account

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of the need to close facilities and reduce levels of service provision.
- The Authority is deemed to control the services provided under outsourcing agreements for Milton Cross School, learning disability facilities, and highways maintenance, and also to control the residual value of the assets at the end of the agreements. The value of these assets as at 31 March 2013 was £107.1m. The Authority also provides its waste disposal service through Project Integra which is a partnership with Hampshire County Council and Southampton City Council. The Councils' are deemed to control services which have been outsourced by Project Integra and to control the value of the assets at the end of the agreements. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the assets, including Portsmouth City Council's share of the waste disposal assets, (valued at £10.5m as at 31 March 2013) are recognised as Property, Plant and Equipment on the Council's balance sheet.
- The Council has made judgements on whether assets are classified as Investment Property or Property Plant and Equipment. Where earning rentals is an outcome of a regeneration policy or providing facilities on out of town housing estates, the properties concerned are accounted for as property, plant and equipment rather than investment property. The classification determines the valuation method used and whether depreciation and impairments are charged to the cost of services.
- The Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The primary tests consist of whether the lease transfers ownership of the asset to the lessee by the end of the lease term; whether the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain that the option will be exercised; the lease term is for the major part of the economic life of the asset (the Council has taken the view that the term of a finance lease would equate to over half the asset's life); the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset (the Council has taken the view that the net present value of the minimum lease payments under a finance lease would amount to at least 80% of the fair value of the asset); and whether the leased assets are of such a specialised nature that only the lessee can use them without major modifications. The outcomes of these tests are considered individually and collectively. The accounting treatment for operating and finance leases is significantly different and could have a significant effect on the accounts.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

4. ASSUMPTIONS MADE ON SOURCES OF ESTIMATION UNCERTAINTY

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Non-Current Assets	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs & maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs & maintenance, bringing into doubt the useful lives assigned to assets.	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 £2.6m for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates & expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.
Arrears	At 31st March 2013, the Authority had a balance for sundry debtors for £19.7m. A review of significant balances suggested that an impairment of doubtful debts of 14.2% (£2.8m) was appropriate. However in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £2.8m to set aside as an allowance.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

5. MATERIAL ITEMS OF INCOME AND EXPENSE

The profitability of the International Port is dependent upon the continued use of the ferry port by three main customers, namely Brittany Ferries, Condor Ferries and DFDS Seaways. Operator agreements are in place with two of the companies which make provision for minimum guaranteed levels of income; this offers some degree of protection to the annual stream of income received by the port, but represents a small percentage of the normal turnover. Annual turnover of the port amounts to £16m.

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

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

7. ADJUSTMENTS OF ACCOUNTING AND FUNDING BASIS UNDER REGULATIONS

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

2012/13	Usable Reserves						Total Usable Reserves £'000	Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
Adjustments between accounting basis & funding basis under regulations								
- Analysis Adjustments involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non current assets	(32,703)		5,360				(27,343)	27,343
Movements in the market value of Investment Properties	59						59	(59)
Amortisation of intangible assets	(285)						(285)	285
Revenue expenditure funded from capital under statute	(1,313)		(31)			(1,669)	(3,013)	3,013
Amounts of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the CIES	(14,620)		(1,393)				(16,013)	16,013
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	7,896		2,954				10,850	(10,850)
Repayment of transferred debt	640						640	(640)
Capital expenditure charged against the General Fund and HRA balances	3,829						3,829	(3,829)
Adjustments involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to CIES	25,452		2,648			(28,100)	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account						27,546	27,546	(27,546)
Adjustments involving the Capital Receipts Reserve:								
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	2,317		2,275		(5,061)		(469)	469
Loan Repayments					(521)		(521)	521
Use of Capital Receipts Reserve to finance new capital expenditure					5,414		5,414	(5,414)
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals							0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(722)				722		0	0
Use of capital receipts to provide for the repayment of debt					694		694	(694)
Adjustments involving the Major Repairs Reserve:								
Reversal of Major Repairs Allowance credited to the HRA			(139)	(13,708)			(13,847)	13,847
Use of Major Repairs Reserve to finance new capital expenditure				12,941			12,941	(12,941)
Adjustments involving the Financial Instruments Adjustment Account:								
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	137		115				252	(252)
Adjustments involving the Pensions Reserve								
Reversal of items relating to retirement benefits debited or credited to the CIES	(23,509)		(2,601)				(26,110)	26,110
Employer's pension contributions and direct payments to pensioners payable in the year	17,947		1,480				19,427	(19,427)
Adjustments involving the Collection Fund Adjustment Account:								
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	331						331	(331)
Adjustment involving the Accumulated Absences Account:								
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(147)		127				(20)	20
Adjustment involving the Revaluation Reserve:								
Depreciation of non-current asset revaluation gains							0	0
Adjustments involving the Capital Receipts Deferred Account:								
Mitigation of lost revenue from operating leases being reclassified as finance leases under SI454/2011	(624)						(624)	624
Adjustments between accounting basis & funding basis under regulations	(15,315)	0	10,795	(767)	1,248	(2,223)	(6,262)	6,262

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

2011/12	Usable Reserves						Total Usable Reserves £'000	Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
Adjustments between accounting basis & funding basis under regulations								
- Analysis Adjustments involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non current assets	(31,180)		(378)				(31,558)	31,558
Movements in the market value of Investment Properties	244		22				266	(266)
Amortisation of intangible assets	(366)						(366)	366
Revenue expenditure funded from capital under statute	(42)		(88,619)		(102)		(88,763)	88,763
Amounts of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the CIES	(5,243)		(595)				(5,838)	5,838
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	9,125						9,125	(9,125)
Repayment of transferred debt	667						667	(667)
Capital expenditure charged against the General Fund and HRA balances	652						652	(652)
Adjustments involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to CIES	12,882		2,974			(15,856)	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account						13,226	13,226	(13,226)
Adjustments involving the Capital Receipts Reserve:								
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	7,597		1,297		(6,333)		2,561	(2,561)
Loan Repayments					(830)		(830)	830
Use of Capital Receipts Reserve to finance new capital expenditure					4,478		4,478	(4,478)
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals							0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital redceipts pool	(779)				779		0	
Adjustments involving the Major Repairs Reserve:								
Reversal of Major Repairs Allowance credited to the HRA			(1,355)	(12,054)			(13,409)	13,409
Use of Major Repairs Reserve to finance new capital expenditure				17,734			17,734	(17,734)
Adjustments involving the Financial Instruments Adjustment Account:								
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	197		68				265	(265)
Adjustments involving the Pensions Reserve								
Reversal of items relating to retirement benefits debited or credited to the CIES	(22,113)		(1,737)				(23,850)	23,850
Employer's pension contributions and direct payments to pensioners payable in the year	18,798		1,451				20,249	(20,249)
Adjustments involving the Collection Fund Adjustment Account:								
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(1,077)						(1,077)	1,077
Adjustment involving the Accumulated Absenses Account:								
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	189		17				206	(206)
Adjustment involving the Revaluation Reserve:								
Depreciation of non-current asset revaluation gains							0	0
Adjustments involving the Capital Receipts Deferred Account:								
Mitigation of lost revenue from operating leases being reclassified as finance leases under SI454/2011	(586)						(586)	586
Adjustments between accounting basis & funding basis under regulations	(11,035)	0	(86,855)	5,680	(2,008)	(2,630)	(96,848)	96,848

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

8. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2012/13.

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

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

9. PROPERTY, PLANT & EQUIPMENT

Movements on Balances: Comparative Movements in 2011/12

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Movements in 2012/13

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Other Land and Buildings – Surplus £000	Assets Under Construction £000	Total £000
Cost or Valuation								
At 1st April 2012	702,137	519,333	55,329	134,285	2,442	631	28,289	1,442,446
Additions		680					51,020	51,700
Disposals	(2,600)	(13,224)	(101)	(296)	(17)			(16,238)
Revaluations	(12,472)	(4,498)	(453)	(56)	16			(17,463)
Reclassifications	17,330	10,675	1,096	4,717	73	1,384	(36,347)	(1,072)
At 31st March 2013	704,395	512,966	55,871	138,650	2,514	2,015	42,962	1,459,373
Depreciation								
At 1st April 2012	0	(15,933)	(17,202)	(22,981)	0	0	0	(56,116)
Charge in Year	(12,518)	(8,134)	(5,655)	(3,573)				(29,880)
Disposal	46	86	3	217				352
Revaluations	12,472	8,989	565	64				22,090
Reclassifications								0
At 31st March 2013	0	(14,992)	(22,289)	(26,273)	0	0	0	(63,554)
Impairment								
At 1st April 2012	(273,661)	(126,534)	(201)	(4,091)	(53)	(342)	0	(404,882)
Charge in Year	5,361	(15,148)	(129)	(150)	(23)			(10,089)
Disposal	1,013	5,134	98	80				6,325
Reclassifications		102				(600)		(498)
At 31st March 2013	(267,287)	(136,446)	(232)	(4,161)	(76)	(942)	0	(409,144)
Net Book Value								
At 1st April 2012	428,476	376,866	37,926	107,213	2,389	289	28,289	981,448
At 31st March 2013	437,108	361,528	33,350	108,216	2,438	1,073	42,962	986,675

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Tangible non-current assets have been valued as follows:

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

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

A five year rolling programme of revaluations is undertaken for all assets except council dwellings, which are revalued annually. All valuations have been carried out by Royal Institute of Chartered Surveyors (RICS) qualified staff from the Council's Corporate Assets, Business & Standards Service in accordance with the practice statements and guidance notes contained in the RICS manual of Appraisal and Valuation 5th Edition 2003 (as amended). The assets are valued as at 31st March 2013.

The beacon principle has been used to value the HRA council housing stock. A sample property "the Beacon" is selected from a group of properties that are of similar design, age, type or construction and a detailed valuation carried out. The valuation is then applied to all properties in that group. The basis of valuation is Existing Use Value for Social Housing. EUV-SH uses the vacant possession value of the dwelling as a starting point, on the assumption that each property is to be used as residential accommodation that will be occupied by a secure tenant. This figure is then amended by a regional adjustment factor of 32% to reflect the fact that sitting tenants enjoy lower than open market rents and rights, including Right to Buy. HRA non-dwelling properties use the existing use value (EUV) method of valuation for non-specialist operational properties, and depreciated replacement cost (DRC) for specialist operational properties. In 2012/13 £5.3m was reversed against previous impairment losses in the Surplus or Deficit on the Provision of Services.

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

	Property, Plant & Equipment						Investment Property	Held for Sale	Assets Under construction	Total
	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	community Assets	Surplus Assets				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2012/13	437,108	115,750	1,992	5,576	37	269	9,713	-	-	570,445
2011/12	-	25,516	6,292	15,977	1,074	38	5,041	-	-	53,938
2010/11	-	89,409	6,063	17,857	1,315	-	5,906	-	-	120,550
2009/10	-	122,899	10,646	63,578	14	468	12,723	1,015	-	211,343
2008/09	-	4,334	7,389	-	-	-	5	-	-	11,728
Valued at Historic Cost	-	3,620	968	5,228	-	298	-	-	42,962	53,076
	437,108	361,528	33,350	108,216	2,440	1,073	33,388	1,015	42,962	1,021,080

Depreciation

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

11. INFORMATION ON ASSETS HELD

Fixed assets owned by the City Council include the following:	31st March 2012	31st March 2013
Nursery schools	1	1
Primary schools	45	44
Secondary schools	6	6
Special schools	5	5
Pupil referral units	0	0
Professional centre	1	1
Residential homes for children	4	4
Residential homes for older people	5	5
Residential homes for people with physical disabilities	1	1
Residential homes for people with learning disability	1	1
Family resource centres	3	3
Youth Justice centre	1	0
Day centres for older people	1	1
Day care centres for people with disabilities	1	1
Training centres for adults with learning disability	4	4
Housing area offices	8	8
Council dwellings	15,184	15,147
Civic offices	1	1
Guildhall	1	1
Carers centre	1	1
Public conveniences	28	28
Community centres	15	15
Adventure playgrounds	6	6
Golf courses	2	2
Allotments	67 acres	67 acres
Leisure centres without pools	2	2
Swimming pools	2	2
Youth centres	3	3
Outdoor activity centres	1	1
Museums & galleries	8	8
Arts centres	0	0
Libraries	9	9
Market	2	2
Cemeteries	3	3
Spinnaker Tower	1	1
Cranes	2	2
Freehold Ferry terminals	2	2
Ferry port berths	5	5
Link span bridges	5	5
Long-term car park in commercial port	1	1
Commercial properties	1,401	1,382
Business Centres	3	3
Industrial/Training unit (PCMI)	1	1
Tourist information centres	1	0
Off-street car parks	26	26

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

12. SIGNIFICANT COMMITMENTS FOR FUTURE CAPITAL EXPENDITURE

(a) Future Approved Capital Programme

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

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

(b) Contractual Commitments

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

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

13. INVESTMENT PROPERTIES

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

14. INTANGIBLE ASSETS

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

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

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

Intangible Assets	2011/12			2012/13		
	Internally Generated Assets £000	Other Assets £000	Total £000	Internally Generated Assets £000	Other Assets £000	Total £000
Balance at start of year:						
Gross Carrying Amounts	0	3,300	3,300	0	3,597	3,597
Accumulated amortisation	0	(1,879)	(1,879)	0	(2,245)	(2,245)
Net carrying amount at start of year	0	1,421	1,421	0	1,352	1,352
Additions:						
Internal development	0	0	0	0	0	0
Purchases	0	0	0	0	0	0
Other disposals carrying amount	0	(4)	(4)	0	0	0
Other disposals accumulated amortisation	0	4	4	0	0	0
Impairment	0	(4)	(4)	0	0	0
Reclassifications	0	301	301	0	422	422
Amortisation for the period:						
Charge to net cost of services	0	(366)	(366)	0	(419)	(419)
Net carrying amount at end of year	0	1,352	1,352	0	1,355	1,355
Comprising:						
Gross Carrying Amounts	0	3,597	3,597	0	4,019	4,019
Accumulated amortisation	0	(2,245)	(2,245)	0	(2,664)	(2,664)
	0	1,352	1,352	0	1,355	1,355

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

15. FINANCIAL INSTRUMENTS

a) Financial Instrument Balances

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

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

The above balances are shown net of impairments. There are no impairments in the Council's financial instruments apart from current loans and receivables. Impairments to current loans and receivables were £5.4m at 31st March 2013 (£5.9m at 31st March 2012). All outstanding debt is pursued until such time as it becomes uneconomic or disproportionate to the administrative effort required. The Council only holds collateral in relation to debts arising from commercial tenancies.

The loans and receivables figures in the table above include interest free loans. £6.3m has been advanced to enable private dwellings to be improved to a decent standard. Interest will accrue on these loans after an initial five year period. Certain social care clients are allowed to defer their payments to the Council without interest being charged and £0.8m was outstanding at 31st March 2013 (£1.0m at 31st March 2012)

The Council has lodged £0.6m with Lloyds TSB to secure banking facilities for its subsidiary company, MMD (Shipping Services) Ltd. These funds may not be returned if MMD (Shipping Services) Ltd defaults on its obligations to Lloyds TSB.

The Council is acting as guarantor for £3m of loan obligations to Southsea Community Leisure Limited. Southsea Community Leisure Limited will use or have used the loan to renovate the Pyramids Leisure Centre. The fair value of this guarantee that has been provided for is £2.4m.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

b) Financial Instruments Gains / Losses

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

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

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

The Authority owns a stevedoring company. As the company is not currently generating cash it is carried in the balance sheet at its net worth. The net worth of the company reduced by £5.8m from £10.3m to £4.5m in 2012/13. This loss has been recognised through the Comprehensive Income and Expenditure Statement.

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

	31st March 2012		31st March 2013	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and Receivables	288,244	310,903	297,807	321,835

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also provides a maximum amount to be invested with any single counter-party.

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

The Authorities maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed in general, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Authority's deposits, but there was no evidence at the 31st March 2013 that this was likely to crystallise.

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

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

The credit agencies have down rated many financial institutions over the last few years. A concern expressed by the credit rating agencies is the Banking Act 2009. The Banking Act 2009 gives the Authorities greater flexibility to resolve financial institutions problems, which for

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

example could lead to different treatment of wholesale senior unsecured debt, which would include the Council's investments, compared to other liabilities. Despite this, at 31st March 2013 the Council did not have any investments with institutions that met the Council's investment criteria at the time the investment was made, but no longer meet the Council's criteria.

The Authority does not generally allow credit for customers. However, there is a balance of £4.4m that is past its due date for payment. This can be analysed by age as follows:

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

Liquidity Risk

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

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

The remainder of the Authority's borrowing consists of fixed rate PWLB debt. These loans have a weighted average remaining term of 35 years. In real terms the value of the debt will be substantially eroded through the remainder of its term by inflation. The PWLB also allows debt to be rescheduled prior to maturity although this may necessitate paying a premium to the PWLB.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Borrowing is as follows:

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

Market Risk

Interest Rate Risk

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

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

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

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

The treasury management team has an active strategy for assessing interest rates. This allows adverse changes to be accommodated. The analysis also informs whether new borrowings and investments undertaken are fixed or variable.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

According to this assessment strategy, at 31st March 2013, if interest rates had been 0.5% higher with all other variables held constant, the financial effect would be an increase in investment income of £0.9m. The impact of a 0.5% fall in interest rates would have been a reduction in investment income of £0.9m.

Price Risk

The Authority does not generally invest in equity shares but did acquire a stevedoring company based at the commercial port on 29th February 2008. The Authority is consequently exposed to losses arising from movements in the value of the shares. The company is carried in the balance sheet on the basis of its net worth of £4.5m. Changes in the value of the company are reported through the Comprehensive Income and Expenditure Statement.

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

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

Foreign Exchange Risk

The Council has a Euro denominated bank account. The balance on this Account had a value of £0.8m in Sterling. If the value of Sterling strengthens against the Euro, the Sterling value of this account will fall, but if Sterling weakens against the Euro, the Sterling value of this account will rise.

16. CONSTRUCTION CONTRACTS

The City Council did not undertake any construction contracts for outside bodies in 2012/13.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

17. SHORT-TERM DEBTORS

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

18. CASH AND CASH EQUIVALENTS

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

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

19. ASSETS HELD FOR SALE

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

20. SHORT-TERM CREDITORS

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

21. PROVISIONS

	Outstanding Legal Cases £000	Other Provisions £000	Total £000
Balance at 1 April 2012	(621)	(9,410)	(10,031)
Additional provisions made in 2011/12	-	(1,632)	(1,632)
Amounts used in 2011/12	-	3,403	3,403
Unused amounts reversed in 2011/12	-	584	584
Unwinding of Discounting in 2011/12	-	(109)	(109)
Balance at 31 March 2012	(621)	(7,164)	(7,785)
Additional provisions made in 2012/13	-	(1,404)	(1,404)
Amounts used in 2012/13	-	909	909
Unused amounts reversed in 2012/13	621	591	1,212
Unwinding of Discounting in 2012/13	-	(102)	(102)
Balance at 31 March 2013	-	(7,170)	(7,170)

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Outstanding Legal Cases

Pilots Pension Fund Deficit

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

Other Provisions

Pyramids Guarantee £2.4m

The Council is acting as guarantor for £3m of loan obligations to Southsea Community Leisure Limited. Southsea Community Leisure Limited will use the loan to renovate the Pyramids Leisure Centre. The fair value of this guarantee that has been provided for is £2.4m.

Insurance provision £0.9m

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

Unsold landfill allowances £1.0m

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

Liability for landfill usage £1.3m

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

22. UNUSABLE RESERVES

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

Revaluation Reserve

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Available for Sale Financial Instruments Reserve

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Capital Adjustment Account

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

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

Capital Adjustment Account				
2011/12			2012/13	
£000	£000		£000	£000
	(681,974)	Balance at 1 April		(588,973)
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
29,460		- Charges for depreciation and impairment of non current assets	30,068	
15,509		- Revaluation loses on Property, Plant and Equipment	11,169	
366		- Amortisation of intangible assets	285	
89,032		- Revenue expenditure funded from capital under statute	3,013	
5,206		- (Gain) / loss on disposal taken to the Comprehensive Income and Expenditure Statement	15,709	
597		Loan Repayments	504	
	140,169			60,748
	(1,019)	Adjusting amounts written out of Revaluation Reserve		(1,302)
	(542,824)	Net written out amount of the cost of non current assets consumed in the year		(529,527)
		Capital financing applied in the year:		
(4,478)		- Use of Capital Receipts Reserve to finance new capital expenditure	(5,414)	
(17,734)		- Use of Major Repairs Reserve to finance new capital expenditure	(12,941)	
(13,227)		- Application of grants and contributions to finance new capital expenditure	(27,546)	
(9,125)		- Statutory provision for the financing of capital investment charges against the General Fund and HRA balances	(10,850)	
-		- Capital receipts set aside for the repayment of debt	(694)	
(667)		- Repayment of transferred debt	(640)	
(652)		- Capital expenditure charged against the General Fund and HRA balances	(3,829)	
	(45,883)			(61,914)
	(266)	Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement		(59)
	(588,973)	Balance at 31 March		(591,500)

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefits from gains per statutory provisions.

The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out to the General Fund Balance in the Movement in Reserves Statement. Over time the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the term of the replacement loans. As a result, the balance on the Account at 31st March 2013 will be charged to the General Fund over the next 45 years. As at 31st March 2013 £2.5m (£2.7m as at 31 March 2012) of the balance on this account represented net premiums on the early repayment of debt that have yet to be charged to the revenue account.

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Pensions Reserve

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

2011/12 £000	2012/13 £000
257,817 Balance at 1 April	321,848
60,430 Actuarial (gains) and losses on pensions assets and liabilities	22,096
23,850 Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	26,110
(20,249) Employer's pensions contributions and direct payments to pensioners payable in the year	(19,427)
321,848	350,627

Collection Fund Adjustment Account

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

2011/12 £000	2012/13 £000
(722) Balance at 1 April	355
1,077 Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(331)
355	24

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Accumulating Compensated Absences Adjustment Account

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

2011/12 £000		2012/13 £000 £000	
5,381	Balance at 1 April		5,174
(5,381)	Settlement or cancellation of the accrual made at the end of the preceding year	(5,174)	
5,174	Amounts accrued at the end of the current year	5,194	
(207)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		20
5,174	Balance at 31 March		5,194

Deferred Capital Receipts

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

23. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

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

24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

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

26. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

27. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations in 2012/13.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

28. TRADING OPERATIONS

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

Included under this category are property based activities concerning the management of industrial and corporate estates, properties and local markets.

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

The City Council's Port activities are classified as Highways and Transport expenditure and are not therefore included in these Trading Undertakings.

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

29. AGENCY SERVICES

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

30. POOLED BUDGETS

(a) Adult Mental Health & Substance Misuse

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

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

(b) Integrated Commissioning Unit

The Council (host partner) has entered into a pooled budget arrangement with Portsmouth City Teaching PCT for the commissioning of a range of health and social care services for vulnerable people. The Council and the Trust have an agreement in place for funding these services that ran for three years from 1st April 2010. The Integrated Commissioning Unit's Section 75 agreement was renewed in 2013/14.

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

(c) Nursing Home Placements

The Council (host partner) has entered into a pooled budget arrangement with Portsmouth City Teaching PCT for the purpose of commissioning nursing care. The Council and the Trust have an agreement in place for funding these services that will run for twenty five years from February 2011. The figures below are for the period from April to September 2012. After 1 October 2012, these placements formed part of the Continuing Health Care pooled budget arrangement and therefore the figures for the period October 2012 to March 2013 is included within note (d) below.

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

(d) Continuing Health Care (CHC)

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

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

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

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

31. MEMBERS ALLOWANCES

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

32. OFFICERS REMUNERATION

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

2011/12		2012/13
Number of employees		Number of employees
77	£50,000 to £54,999	88
58	£55,000 to £59,999	66
27	£60,000 to £64,999	32
15	£65,000 to £69,999	18
14	£70,000 to £74,999	11
17	£75,000 to £79,999	7
2	£80,000 to £84,999	6
7	£85,000 to £89,999	9
0	£90,000 to £94,999	1
2	£95,000 to £99,999	0
0	£100,000 to £104,999	1
5	£105,000 to £109,999	5
0	£110,000 to £114,999	0
0	£115,000 to £119,999	1
0	£120,000 to £124,999	0
0	£125,000 to £129,999	0
0	£130,000 to £134,999	0
0	£135,000 to £139,999	0
0	£140,000 to £144,999	0
1	£145,000 to £149,999	1
225		246

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Senior Officers Emoluments in 2012/13

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Senior Officers Emoluments in 2011/12

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

Post Title	Salary & Allowances £	Compensation for loss of office £	Total Remuneration Excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
Chief Executive	148,885	-	148,885	19,504	168,389
Director of Social Services & Strategic Director	109,430	-	109,430	14,335	123,765
Strategic Director & Section 151 Officer*	45,596	62,080	107,676	5,973	113,649
Section 151 Officer & Head of Financial Services	72,381	-	72,381	9,482	81,863
Director of Regeneration & Strategic Director	109,430	-	109,430	14,335	123,765
City Solicitor & Strategic Director	107,345	-	107,345	14,062	121,407
Port Manager	105,261	-	105,261	13,789	119,050
Director of Children's Services & Strategic Director	109,430	-	109,430	14,335	123,765
Managing Director for PUSH Team	95,000	-	95,000	12,445	107,445

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

33. EXTERNAL AUDIT COSTS

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

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

No other non-statutory services were provided.

34. DEDICATED SCHOOLS GRANT

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

Details of the deployment of DSG receivable for 2012/13 are as follows:

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

35. GRANT INCOME

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

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

36. RELATED PARTIES

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

Central Government

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

PORTSMOUTH CITY COUNCIL

Annual Report 2012/13

Members

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

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

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

Officers

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

Other Public Bodies

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

Entities Controlled or Significantly Influenced by the Council

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

37. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

38. LEASES

Authority as Lessee

Finance Leases

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 and 2012/13 no contingent rents were payable by the Authority.

The Authority has sub-let some of the industrial accommodation held under these finance leases. At 31st March 2013 the minimum payments expected to be received under non-cancellable sub-leases was £0.3m (£0.3m at 31st March 2012).

Operating Leases

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Authority as Lessor

Finance Leases

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. No contingent rents were receivable by the Authority in 2011/12 or 2012/13.

Operating Leases

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

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

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

	31st March 2012 £000	31st March 2013 £000
Not later than one year	4,836	5,547
Later than one year and not later than five years	18,730	15,983
Later than five years	6,388	5,490
	29,954	27,020

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 and 2011/12 no contingent rents were receivable by the Authority.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

39. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

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

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

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

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

As the Council is deemed to control the services that are provided under its PFI schemes and similar arrangements and as ownership of the non-current assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the non-current assets used under the contracts on the Balance Sheet together with the associated deferred liability. The associated PFI Grant is shown as General Government Grant.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

	Miltoncross Secondary School £000	Learning Disability Facilities £000	Highways Maintenance £000	Waste Disposal £000	Total £000
Cost or Valuation					
At 1st April 2011	22,664	7,274	80,718	14,107	124,763
Additions					0
Revaluations					0
Reclassifications	14		8,745		8,759
At 1st April 2012	22,678	7,274	89,463	14,107	133,522
Additions			7,158		7,158
Revaluations					0
Reclassifications	21		3,348		3,369
At 31st March 2013	22,699	7,274	99,969	14,107	144,049
Depreciation					
At 1st April 2011	0	0	(11,139)	(1,774)	(12,913)
Charge in Year	(340)	(113)	(2,123)	(890)	(3,466)
Revaluations					0
Reclassifications					0
At 1st April 2012	(340)	(113)	(13,262)	(2,664)	(16,379)
Charge in Year	(340)	(113)	(2,367)	(890)	(3,710)
Revaluations					0
Reclassifications					0
At 31st March 2013	(680)	(226)	(15,629)	(3,554)	(20,089)
Impairment					
At 1st April 2011	(1,475)	(743)	(4,007)	(92)	(6,317)
Charge in Year	(14)				(14)
Reclassifications					0
At 1st April 2012	(1,489)	(743)	(4,007)	(92)	(6,331)
Charge in Year	(21)				(21)
Reclassifications					0
At 31st March 2013	(1,510)	(743)	(4,007)	(92)	(6,352)
Net Book Value					
At 1st April 2011	21,189	6,531	65,572	12,241	105,533
At 31st March 2012	20,849	6,418	72,194	11,351	110,812
At 31st March 2013	20,509	6,305	80,333	10,461	117,608

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

40. TERMINATION BENEFITS

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

41. LIABILITY RELATING TO DEFINED BENEFIT PENSION SCHEME

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

The council participates in three post employment schemes:

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

The Teachers' Pension Fund for teaching staff - this is an unfunded defined benefit scheme, administered by the Department for Education. Details of this fund are disclosed in Note 42.

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

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

Transactions Relating to Post-employment Benefits

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

Assets and Liabilities in relation to retirement benefits

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

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

The actual return on scheme assets in the year was £61.2m for the LGPS (2011/12: £18.5m). There was no actual return in the year on scheme assets for the PNPf (2011/12: no actual return). This is because for accounting purposes, the PNPf was deemed to be reclassified as a defined benefit scheme at the end of the year; hence its assets and liabilities came into existence on 31 March 2013.

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Scheme history

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £350.6m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary. The total contributions expected to be made by the council in the year to 31 March 2014 is £17.5m for the LGPS and £1.1m for the PNPf.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The council's fund liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the council fund being based on the latest valuation of the LGPS as at 31 March 2010 and the latest valuation of the PNPf as at 31 December 2010 (calculations updated to 31 March 2013 by Aon Hewitt Limited).

The principal assumptions used by the actuary have been:

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

Commutation: LGPS

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

Commutation: PNPf

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

History of Experience of Gains and Losses

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

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

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

42. PENSION SCHEMES ACCOUNTED AS DEFINED CONTRIBUTION SCHEMES

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

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

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

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 41.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

43. LONG TERM DEBTORS

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

44. OTHER LONG TERM LIABILITIES

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

45. HERITAGE ASSETS: FIVE – YEAR SUMMARY OF TRANSACTIONS

	Heritage Assets 2008-09 £000	Heritage Assets 2009-10 £000	Heritage Assets 2010-11 £000	Heritage Assets 2011-12 £000	Heritage Assets 2012-13 £000
Cost or Valuation					
Museum Collections	12,303	12,303	12,303	12,303	12,303
Civic Plate	3,658	3,658	3,658	3,658	3,658
Memorials	179	179	179	179	406
Historic Buildings	30,391	29,857	29,962	29,950	30,366
Sculptures	154	1,540	1,540	1,540	1,540
	46,685	47,537	47,642	47,630	48,273
Additions / Donations	0	0	0	0	0
Disposals	0	0	0	0	0
Revaluations:					
Historic Buildings	(534)	(27)	(12)	365	(53)
Sculptures	1,386				
Reclassifications:					
Memorials				226	94
Historic Buildings		132		52	488
At 31st March	47,537	47,642	47,630	48,273	48,802
Depreciation at 1st April					
Historic Buildings	(532)	(13)	(3)	(6)	(16)
Charge in Year:					
Historic Buildings	(19)	(13)	(15)	(10)	(7)
Revaluations:					
Historic Buildings	538	23	12	0	0
At 31st March	(13)	(3)	(6)	(16)	(23)
Impairment at 1st April					
Historic Buildings		(148)	(292)	(323)	(312)
Charge in Year:					
Historic Buildings	(148)	(144)	(31)	11	(435)
Memorials					(94)
At 31st March	(148)	(292)	(323)	(312)	(841)
Net Book Value					
Museum Collections	12,303	12,303	12,303	12,303	12,303
Civic Plate	3,658	3,658	3,658	3,658	3,658
Memorials	179	179	179	179	406
Historic Buildings	29,859	29,696	29,667	29,621	30,038
Sculptures	154	1,540	1,540	1,540	1,540
At 1st April	46,153	47,376	47,347	47,301	47,945
Net Book Value					
Museum Collections	12,303	12,303	12,303	12,303	12,303
Civic Plate	3,658	3,658	3,658	3,658	3,658
Memorials	179	179	179	406	406
Historic Buildings	29,696	29,667	29,621	30,038	30,031
Sculptures	1,540	1,540	1,540	1,540	1,540
At 31st March	47,376	47,347	47,301	47,945	47,938

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

46. HERITAGE ASSETS: FURTHER INFORMATION

a) Historic Buildings

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

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

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

b) Sculptures

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

c) Memorials

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

d) Museum Collection

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

e) Archives

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

f) Civic Plate

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

47. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

**PORTSMOUTH CITY COUNCIL
Annual Report 2012/13**

48. TRUST FUNDS

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

49. EXIT PACKAGES

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

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies (compulsory and voluntary redundancies in 2011/12)*		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band (£)	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
£0-£20,000	241	48	12	75	253	123	£1,441,010	£793,763
£20,001 - £40,000	42	4	5	12	47	16	£1,280,253	£449,652
£40,001 - £60,000	8	1	3	7	11	8	£557,253	£372,898
£60,001 - £80,000	8	0	0	4	8	4	£560,033	£282,655
£80,001 - £100,000	0	0	0	0	0	0	£0	£0
£100,000 - £150,000	1	0	0	2	1	2	£102,533	£229,892
£150,001 - £200,000	1	0	0	1	1	1	£153,432	£155,960
Total cost included in bandings	301	53	20	101	321	154	£4,094,514	£2,284,820
Add: Amounts provided for in CIES not included in bandings							0	0
Total cost included in CIES							£4,094,514	£2,284,820

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

50 EXCEPTIONAL ITEMS

There were no exceptional items in 2012/13.

The Council was required to pay the Government a self financing payment of £88.6 million in 2011/12. This was a one off payment to the Government to end the existing negative HRA subsidy arrangements under which the Council was required to pay subsidy to the Government each year.

51. OTHER COMPANIES

Portsmouth Harbour Renaissance Limited

The City Council has an equity interest in Portsmouth Harbour Renaissance Limited although this company is not a related company under the Local Authorities (Companies) order as the City Council does not have a controlling or dominant influence over it.

MMD (Shipping Services) Limited

The company's principal activity is stevedoring. It is engaged in the provision of shipping, warehousing and associated services and UK road transport and distribution of fruit.

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

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

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

52. LOSS ON DISPOSAL OF NON CURRENT ASSETS

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

COLLECTION FUND

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

1. Council Tax Base

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

Band	Estimated no. of taxable properties after allowing for discounts, exemptions etc	Ratio	Band D equivalent dwellings
A	19,145	6/9	12,763
B	24,513	7/9	19,066
C	18,449	8/9	16,399
D	5,080	9/9	5,080
E	3,031	11/9	3,705
F	1,467	13/9	2,119
G	589	15/9	982
H	22	18/9	43
	72,296		60,157
Less: adjustment for non-collection			(902)
Add: MoD dwellings contribution			661
2012/13 tax base			59,916

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

The following Authorities precepts are shown below:

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

2. Income from business ratepayers

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

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

3. Collection Fund surpluses & deficits

Surpluses or deficits incurred on the Collection Fund must be either distributed or made good by specific contributions. Any surplus or deficit anticipated on Council Tax revenues must be allocated between Authorities precepting on the Collection Fund pro rata to their demands on the Collection Fund and transferred to or financed by their General, County or Police fund. The City Council's share of the Collection Fund deficit is £22,840 the Police Authority's is £2,907 and the Fire and Rescue Authority's is £1,220. The precepting Authorities' aggregate shares of council tax assets and liabilities are included within Debtors in the Balance Sheet.

4. Business Rate Retention

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

MOVEMENT ON THE HRA STATEMENT

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

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

NOTE TO THE MOVEMENT ON HRA STATEMENT

2011/12 £000		2012/13 £000
82,290	Increase/decrease in the Housing Revenue Account Balance comprising : (Surplus) / Deficit for the year on the HRA Income and Expenditure Account	(11,476)
-	Repayment of Debt	2,954
68	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the SORP and those determined in accordance with statute	115
-	Revenue expenditure funded from capital under statute	(31)
-	Capital grants and contributions credited to CIES	2,648
700	Gain or (loss) on sale of HRA Non-current Assets	882
1,451	Reverse actual pension costs	1,480
(1,231)	Current Service Costs	(1,794)
(505)	HRA share of pension interest costs and expected return on pension assets	(807)
-	Capital expenditure funded by the Housing Revenue Account	-
(376)	Impairment	5,360
(1,355)	Transfer to (from) Major Repairs Reserve	(139)
(85,645)	Transfer for Capital Adjustment Account	-
22	Changes in the Fair Value of investment properties	-
3,500	Transfers to/from RCCO	2,872
17	Accumulating Compensated Absence (Accrued Holiday Pay) Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with IFRS	127
-		-
(1,065)	(Increase) / Decrease in the Housing Revenue Account Balance	2,190
(9,617)	Housing Revenue Account surplus brought forward	(10,682)
(10,682)	Housing Revenue Account surplus carried forward	(8,491)

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Notes on the Housing Revenue Account:

Gross Rent Income

This is the gross rent income for the year after allowance is made for voids etc. During the year, 1.15% of lettable dwellings were vacant. In 2011/12 the figure was 0.83%. Average rents were £74.99 per week in 2012/13, an increase of £2.90 over the previous year.

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

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

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

Council House Tenant Arrears

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

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

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

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

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

HRA Subsidy Payable

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

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

Contributions towards expenditure

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Other Income

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

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

Depreciation of non-current assets

The depreciation charge is broken down as follows:

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

Impairment

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

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

Interest Income

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

IAS 19 - Accounting for pensions

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

Capital Reserve

A Capital Reserve was established during 1991/92 as part of the Housing Investment Programme (HIP) financing policy. A contribution to the reserve of £2.9m was made during the year from revenue surpluses.

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

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

Transfer to/from major repairs reserve

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Housing stock

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

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

The change in stock can be summarised as follows:

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

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Vacant possession value of dwellings within the HRA

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

The substantial difference between this figure and the net book value figure of £437m reflects the economic cost to government of providing council housing at less than open market rents.

Capital expenditure within the HRA

Capital expenditure during the year and its financing was:

	Expenditure			Deferred charges		Total
	Non current assets			Other property	Grants	
	Land	Houses	Other property			
£'000	£'000	£'000	£'000	£'000	£'000	
Projects		4,060				4,060
HRA Assets (Non Dwelling)			1,558		32	1,590
Major Repairs Specific Contracts (Dwellings)		2,074	247			2,321
Major Repairs Dwellings		10,588				10,588
	0	16,722	1,805	0	32	18,559

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Analysis of Capital Receipts

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

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

Exceptional items and prior period adjustments.

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

Summary of Bad Debt Provision as per the Balance Sheet

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Sums directed by the Secretary of State.

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

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

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

GLOSSARY OF TERMS

Assets

An item having value to the City Council in monetary terms. Assets are categorised as either non-current or current. A non-current asset provides benefit to the City Council and to the services it provides for a period of time greater than one year and may be tangible (e.g. a school building, or intangible e.g. computer software licences.) A current asset will be consumed or cease to have material value within the financial year (e.g. cash or stock).

Capital Expenditure

Expenditure for capital purposes comprises the acquisition, construction, replacement or enhancement of land, buildings, plant, machinery and vehicles which adds to and not merely maintains the value of an existing non-current asset and which will be used to provide services beyond the current accounting period. Advances of long-term loans (e.g. house purchase mortgages) and grants for capital purposes are included.

Capital Financing

These are funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and ear-marked reserves.

Capital Receipts

These are the proceeds of sale of capital assets. A proportion of housing receipts – 75% for dwellings – must be paid into a central Government pool, but the remainder is available for new capital projects.

CIPFA

The Chartered Institute of Public Finance and Accountancy. This professional body for accountants in the public sector issues general guidance to local authorities defining the form and manner in which their accounts should be compiled. These recommendations are contained in a Statement of Recommended Practice. In addition, the Institute issues further guidance in the Service Accounting Code of Practice (SeRCOP) which sets out “Proper Practice” in relation to Financial Statements.

Collection Fund

A separate fund that records the income and expenditure relating to council tax and non-domestic rates.

Community Assets

Assets that the City Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks.

Contingent Liabilities

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

Continuing Service

The portfolio of services provided by the City Council is ongoing from year to year. If however a service were to cease, or if a new service were to commence, it would be necessary to show the effect on the Comprehensive Income & Expenditure Statement of the creation or discontinuation from one year to the next.

PORTSMOUTH CITY COUNCIL

Annual Report 2012/13

Corporate & Democratic Core

The corporate and democratic core comprises all activities that the City Council engages in specifically because it is an elected, multi-purpose authority. The costs of these activities are in addition to those which would have been incurred by a series of independent, single purpose nominated bodies managing the same services. There is therefore no logical basis upon which these costs can be apportioned to services.

Creditor

Amount owed by the City Council for work done, goods supplied or services rendered within the accounting period, but for which payment had not been made by the end of the accounting period.

Debtor

Amount owed to the City Council for works done, goods supplied or services rendered within the accounting period, but for which payment had not been received by the end of the accounting period.

Deferred Capital Receipts

Amounts arising from asset sales where the income is received in instalments over agreed periods. They derive mainly from finance leases.

Depreciation

The measure of the cost of the wearing out, consumption or other reduction in the useful economic life of the City Council's non-current assets during the accounting period, whether from use, the passage of time, or obsolescence through technological or other changes.

Exceptional Items

Material items which derive from events or transactions that fall within the normal activities of the City Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Finance Lease

A lease which transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.

Formula Grant

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

General Fund

The total services of the City Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by council tax, government grants and the NNDR.

Housing Revenue Account (HRA)

A separate account to the General Fund which includes the income and expenditure arising from the direct provision of housing accommodation by the City Council.

Impairment

A reduction in the value of a non-current asset, measured by specific criteria, to below its carrying amount in the balance sheet.

PORTSMOUTH CITY COUNCIL

Annual Report 2012/13

Comprehensive Income & Expenditure Statement

The revenue account of the City Council that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income in accordance with International Financial Reporting Standards (IFRS). This is reconciled to the statutory balance on the General Fund through the Movement in Reserves Statement.

Intangible assets

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the City Council. An example would be computer software licences.

Interest Cost (pensions)

For a defined benefit scheme this is the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards prepared by the International Accounting Standards Board apply to Local Authorities where they comply with specific legal requirements and are relevant to local authority activities.

Inventories

Items of raw material and stores that the City Council has procured and holds in expectation of future use.

Investment (Pension Fund)

The investments of the pension fund will be accounted for in the statements of that fund. However the City Council is also required to disclose as part of the disclosures relating to retirement benefits the attributable share of pension scheme assets associated with their underlying obligations.

Landfill Allowances Trading Scheme (LATS)

The LATS scheme is one in which each waste disposal authority is allocated a limit on the amount of waste that can be disposed of via landfill. Exceeding this limit may incur a financial penalty per tonne, unless additional allowances can be purchased from other local authorities. The City Council is required to show a notional book value for the allowances allocated in the revenue account and to show the unused allowances on the balance sheet, even though no actual cash has changed hands.

Long-Term Debtor

Includes balances where the receivable amount will only be collected more than one year into the future.

Materiality

The concept that the Statement of Accounts should include all amounts which, if omitted or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

Minimum Revenue Provision (MRP)

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the City Council.

Movement in Reserves Statement

This reconciliation statement summarises the differences between the outturn on the Comprehensive Income & Expenditure Statement and the General Fund Balance.

PORTSMOUTH CITY COUNCIL
Annual Report 2012/13

Non-Current Assets

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

Non-Distributed Costs

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

National Non-Domestic Rates (“NNDR”)

The Non-domestic rate is a nationally set levy on business premises, set by the Government at a standard rate, charged to businesses and collected by the City Council. The amount collected is paid over to the Government’s national pool and it is then redistributed to local authorities by the Government to support the cost of local services.

Net Assets

The City Council’s value of total assets less total liabilities.

Operating lease

A lease where the risks and rewards of ownership of the asset remains with the lessor.

Pension scheme liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Precept

The levy made by Precepting authorities on the City Council requiring the latter to collect income from council tax payers on their behalf. Both Hampshire Police Authority and Hampshire Fire and Rescue are Precepting authorities.

Provision

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but where the amounts or dates of when they will crystallise are uncertain.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Revenue expenditure funded from capital under statute (REFCUS) is expenditure that can be capitalised under statute but which does not result in or remain matched with a tangible asset. Examples of deferred charges are grants of a capital nature to voluntary organisations or home improvement grants, where no repayment is expected.

Short-Term Borrowing

Money borrowed for a period of less than one year.

Trust Funds

Independent funds administered by the City Council for prizes, charities, specific projects and on behalf of minors.

Useful Economic Life (UEL)

Period over which the City Council will derive benefit from the use of a non-current asset.