

Portsmouth
CITY COUNCIL

**STATEMENT
OF
ACCOUNTS
2013/14**

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Chris Ward
Head of Finance & S151 Officer

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Date

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

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Date

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EXPLANATORY FOREWORD

Financial Year Ended 31st March 2014

Introduction

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

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

Financial Statements 2013/14 – Commentary

The Financial Statements comprise the following:

- **Statement of Responsibilities for the Statement of Accounts.** This statement sets out the respective responsibilities of the City Council and the Head of Finance & S151 Officer (i.e. the Chief Financial Officer of the Council) for the accounts.

- **Comprehensive Income & Expenditure Statement.** This statement explains the change in the net worth of the Council, i.e. the value of its assets less its liabilities. This statement includes the deficit or surplus on the provision of services and other factors affecting the Council's net worth. The statement is based on International Financial Reporting Standards and includes depreciation and impairments (charges relating to the use and consumption of assets), and the actuarial cost of providing defined benefit pensions. The effect of regulations is such that the Council does not fund these costs from taxation as they are incurred. This Statement also includes capital grants and contributions which the Council is not permitted to use to fund revenue expenditure.

- **Balance Sheet.** The balance sheet shows the net worth of the Council, i.e. its assets less its liabilities as at 31 March 2014. The Council's net worth is balanced by its reserves which are classified into usable and unusable reserves. Usable reserves may be used by the Council to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The unusable reserves hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

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

Changes in Accounting Policies

The only significant change in accounting policy between 2012/13 and 2013/14 relates to pensions costs and results from the adoption of a new International Financial Reporting Standard. The effect of these changes has been to increase the cost of the Provision of Services in the Comprehensive Income and Expenditure Statement by £6.9m in 2012/13 and to reduce Other Comprehensive Income and Expenditure by £6.9m. A detailed explanation of the effects of this change in accounting policy is given in Note 6 to the accounts.

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Comprehensive Income & Expenditure Statement and Balance Sheet

Net Cost of Continuing Operations

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

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

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

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

Acquired Operations

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

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Other Operating Expenditure

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

Taxation and Non-Specific Grant Income

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

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

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

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Other Comprehensive Income and Expenditure

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

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

Revaluation Reserve

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

Pension Liability and Pension Reserve

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

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

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

Other Long Term Liabilities

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

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

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

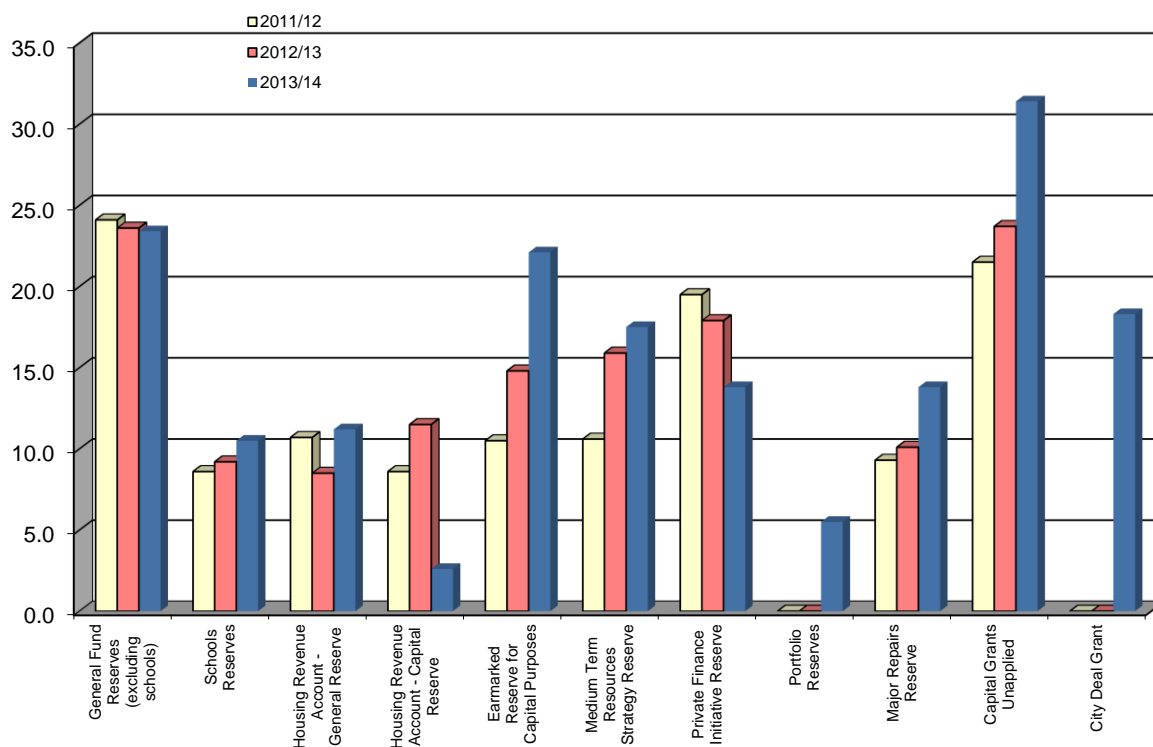
Net Worth

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

Movement in Reserves Statement (MIRS)

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

Balances on Main Distributable Reserves - £m



General Revenue Reserves

These general reserves which can be applied to fund either revenue or capital expenditure are held for two purposes. Firstly, to act as a general contingency against unanticipated expenditure and the potential to fall into deficit. Secondly, as a means of “smoothing out” any shortfalls between the overall amount of funding that the Council receives against the costs of delivering stable service levels.

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General Fund - Balance £33.9m

The Council's main General Fund Balance increased in the year by £1.1m, representing the Council's overall performance on its General Fund activities. It is important to note however, that this increase in General Reserves incorporates schools. The actual performance, in terms of the impact on the General Reserves of the Council, analysed between those generally available to the Council and those available to schools, is as follows:

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

NB. Brackets represent surpluses

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

The City Council's Revised Budget for 2013/14 (excluding schools) estimated that the City Council would make a withdrawal from Reserves of £5.6m. This level of withdrawal was consciously planned and largely reflects a transfer to the Council's Medium Term Resource Strategy Reserve (i.e. its Spend to Save reserve) of £3.0m in order to provide a vehicle for funding savings initiatives over the medium term. The ultimate aim is for in-year expenditure to match in-year income. The Council's actual withdrawal from General Reserves of £0.2m represents a net improvement in the Council's position compared to its budget of £5.4m. The outturn expenditure of all services was within £5m of their budgets.

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

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

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

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

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Housing Revenue Account General Reserve - Balance £11.0m

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

Earmarked Reserves

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

HRA Capital Reserve – Balance £2.6m

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

Earmarked for Capital Purposes – Balance £22.1m

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

Medium Term Resource Strategy Reserve – Balance £17.5m

This reserve was created as a means to fund spend to save schemes to facilitate efficiencies and go some way towards addressing the Council's future years' forecast deficits. It is also used to provide for any redundancy costs associated with such schemes and any other service rationalisation proposals which give rise to on-going savings. The reserve has increased over the year by £1.6m mainly due to Council decisions to make net contributions of £1.6m arising from the overall City Council underspend for the financial year. The current balance of £17.5m is largely committed to funding schemes previously approved by the Council or future anticipated redundancy costs.

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Private Finance Initiative – Balance £13.8m

This reserve accumulates any surplus of Government Grants received in respect of Private Finance Initiative (PFI) schemes over and above the debt financing costs associated with those schemes. Whilst surpluses are realised in the early years of these typically 20-year plus schemes, deficits will arise in the later years. This reserve is maintained to fund those deficits in later years. In the year, the reserve decreased by £4.1m reflecting the net deficit between the Unitary Payments made to the PFI contractor and the PFI Grant, interest and contributions accruing to the reserve.

Portfolio Reserves - Balance £5.5m

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

Other Reserves

Major Repairs Reserve - Balance £14.0m

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

Capital Grants Unapplied - Balance £31.4m

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

City Deal Grant - Balance £18.3m

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

Capital Investment

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

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

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

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

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

The Cash Flow Statement

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

The Collection Fund

This statement shows the transactions of the Council as the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

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

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

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Non-Domestic Rates

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

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

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

Council Tax

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

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

Overall Position

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

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

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

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The Housing Revenue Account (HRA)

Overall the HRA made a surplus of £22.1m in the year 2013/14. This represents a major improvement compared with 2012/13 (£10.9m surplus) of £11.2m. This improvement has principally been caused by the reversal of impairment charges on Council dwellings. Whilst the HRA made a surplus, the accounting arrangements for Local Authorities are such that many of the charges including impairment charges are not passed on to the Council Rent payer in a single year, rather they are reversed in the Movement in Reserves Statement and the charges spread over future years. Equally, the HRA is able to fund Capital Expenditure directly and £15.1m was applied to fund capital expenditure. The combination of all of those adjustments allowed under statute turn the £22.1m surplus into a £6.4m deficit.

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

Conclusion

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

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

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

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

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

PORTSMOUTH CITY COUNCIL
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STATEMENT OF RESPONSIBILITIES

The Authority's responsibilities

The Authority is required to:

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

The responsibilities of the Head of Finance and Section 151 Officer

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

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

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

The Head of Finance and Section 151 Officer has also:

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2014.

Signed

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

**PORTSMOUTH CITY COUNCIL
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COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

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

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

BALANCE SHEET

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

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

23rd September 2014.

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MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Authority, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. These adjustments are detailed in Note 7. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

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

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

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CASH FLOW STATEMENT

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

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

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

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Annual Report 2013/14

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

General

The Statement of Accounts aims to present a true and fair view of the financial position and transactions of the City Council for the 2013/14 financial year and its financial position at 31st March 2014.

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

Accruals of Income & Expenditure

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

Exceptional Items

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

Prior Period Adjustments, Changes in Accounting Policies and Errors

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

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

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

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Non-current Assets

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

Assets are initially measured at cost comprising:

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

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

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

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

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

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

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

With the exception of Investment Properties, losses on revaluation and impairments are taken initially to the Revaluation Reserve and only to the Comprehensive Income and Expenditure Statement where the balance on the reserve falls to zero. The Revaluation Reserve only includes gains since its inception from 1 April 2007, prior gains being incorporated into the Capital Adjustment Account. Any gains or losses on Investment Properties are debited or credited to the Comprehensive Income and Expenditure Statement directly.

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Charges to Revenue for Non-current Assets

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

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

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

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

Impairment

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

Depreciation

Depreciation is provided for all property, plant and equipment assets (other than land, certain community assets and assets under construction) where a finite useful life has been determined. Asset lives for depreciation purposes are estimates which for most assets are determined by the Council's Royal Institute of Chartered Surveyors qualified valuers. This is with the intention of writing off their balance sheet values in equal instalments over their remaining expected useful lives. This is commonly referred to as the "straight line" method. Depreciation is charged from the end of the year following the year of acquisition.

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

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

Disposal of Non-current Assets

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

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

Investment Properties

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

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

Heritage Assets

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

a) Historic Buildings

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

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b) Museum Collections

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

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

c) Archives

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

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

Revenue Expenditure Funded from Capital under Statute

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

Government Grants

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

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

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

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Acquired Operations

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

Cash Equivalents

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

Provisions

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

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

Reserves

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

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

Leases

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

a) Finance Leases Where the Council is the Lessee

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

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

b) Finance Leases Where the Council is the Lessor

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

c) Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rental payments where the Council is the lessee, and rental income where the Council is the lessor, are charged to the relevant service on a straight-line basis over the term of the lease as they become payable.

Support Services & Overheads

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

Employee Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include benefits such as wages and salaries, paid annual leave, and flexi time and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements and flexi leave earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the current accounting year, being the period in which the employee earned the benefit.

Retirement Benefits

Most of the City Council's employees are members of one of three separate main pension schemes; the Teachers' Pension Scheme administered by the Department for Education, or the Local Government Pension Scheme administered by Hampshire County Council or the Pilots National Pension Scheme administered by Capita.

All three schemes provide defined benefits to members (retirement lump sums and pensions). Further details of the pension schemes that the Council participates in are provided in notes 36 and 37.

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

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

Long-Term Contracts (PFI Accounting Policy)

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

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

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

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

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

Value Added Tax

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

Financial Liabilities

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

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Financial assets

Financial assets are classified into two types:

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

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

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

Loans and receivables

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

However the City Council has made interest-free loans to home owners to renovate their homes (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income & Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at an effective rate of interest, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

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

Maintained Schools

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

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

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

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

Solent Local Enterprise Partnership (LEP)

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

Apportionment of Interest Costs to the Housing Revenue Account

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

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

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

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

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

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3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of the need to close facilities and reduce levels of service provision.
- The Authority is deemed to control the services provided under outsourcing agreements for Milton Cross School, learning disability facilities, and highways maintenance, and also to control the residual value of the assets at the end of the agreements. The value of these assets as at 31 March 2014 was £109.6m. The Authority also provides its waste disposal service through Project Integra which is a partnership with Hampshire County Council and Southampton City Council. The Councils' are deemed to control services which have been outsourced by Project Integra and to control the value of the assets at the end of the agreements. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the assets, including Portsmouth City Council's share of the waste disposal assets, (valued at £12.1m as at 31 March 2014) are recognised as Property, Plant and Equipment on the Council's balance sheet.
- The Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. Where earning rentals is an outcome of a regeneration policy or providing facilities on out of town housing estates, the properties concerned are accounted for as property, plant and equipment rather than investment property. The classification determines the valuation method used and whether depreciation and impairments are charged to the cost of services.
- The Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The primary tests consist of whether the lease transfers ownership of the asset to the lessee by the end of the lease term; whether the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain that the option will be exercised; the lease term is for the major part of the economic life of the asset (the Council has taken the view that the term of a finance lease would equate to over half the asset's life); the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset (the Council has taken the view that the net present value of the minimum lease payments under a finance lease would amount to at least 80% of the fair value of the asset); and whether the leased assets are of such a specialised nature that only the lessee can use them without major modifications. The outcomes of these tests are considered individually and collectively. The accounting treatment for operating and finance leases is significantly different and could have a significant effect on the accounts.

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

4. ASSUMPTIONS MADE ON SOURCES OF ESTIMATION UNCERTAINTY

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

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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 £0.3m 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 2014, the Authority had a balance for sundry debtors for £20.3m. A review of significant balances suggested that an impairment of doubtful debts of 13% (£2.6m) was appropriate. However in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £2.6m to set aside as an allowance.
Non Domestic Rates	With effect from 2013/14, the Council will retain 49% of the non-domestic rates that it collects. The amount of non-domestic rates collected is affected by appeals, both lodged and potential appeals that have yet to be lodged, against the rateable values of non-domestic properties. Based on previous experience, 82% of the current rating list will be subject to an appeal at some point throughout the life of the list, 52% of appeals are likely to be successful, and successful appeals will secure an average reduction in rateable value of 11%. On this basis the Council has made a provision of £11.2m in respect of backdated appeals and £2.7m in respect of projected appeals still to be lodged.	The effects on non-domestic rate income of changes in individual assumptions can be measured. However, the assumptions interact with each other.

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5. MATERIAL ITEMS OF INCOME AND EXPENSE

The profitability of the International Port is dependent upon the continued use of the ferry port by three main customers, namely Brittany Ferries, Condor Ferries and DFDS Seaways. Operator agreements are in place with two of the companies which make provision for minimum guaranteed levels of income; this offers some degree of protection to the annual stream of income received by the port, but represents a small percentage of the normal turnover. Annual turnover of the port amounts to £16.0m.

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

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

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

The effect of these changes has been to increase the cost of the Provision of Services in the Comprehensive Income and Expenditure Statement by £6.9m in 2012/13 and to reduce Other Comprehensive Income and Expenditure by £6.9m.

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

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

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

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

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

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

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

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7. ADJUSTMENTS OF ACCOUNTING AND FUNDING BASIS UNDER REGULATIONS

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

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

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2012/13	Usable Reserves						Total Usable Reserves £'000	Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
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
Amounts of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the CIES	(14,620)		(1,393)				(16,013)	16,013
Revenue expenditure funded from capital under statute	(1,313)		(31)			(1,669)	(3,013)	3,013
Other	(226)						(226)	226
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Sums set aside from revenue to fund capital expenditure	12,365		2,954				15,319	(15,319)
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
Use of Capital Receipts Reserve to finance new capital expenditure					5,414		5,414	(5,414)
Other	(722)				895		173	(173)
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 Pensions Reserve								
Reversal of items relating to retirement benefits debited or credited to the CIES	(29,857)		(3,153)				(33,010)	33,010
Employer's pension contributions and direct payments to pensioners payable in the year	17,947		1,480				19,427	(19,427)
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)
Other Adjustments								
	(634)		242				(392)	392
Adjustments between accounting basis & funding basis under regulations	(21,663)	0	10,243	(767)	1,248	(2,223)	(13,162)	13,162

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8. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2013/14.

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

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

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

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

Portfolio Reserves

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

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

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9. PROPERTY, PLANT & EQUIPMENT

Movements on Balances: Comparative Movements in 2012/13

	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)
Revaluation Gains		6,348	119	7	16			6,490
Revaluation Losses	(12,472)	(10,845)	(572)	(64)				(23,953)
Reclassifications	17,330	10,675	1,096	4,717	73	1,384	(36,347)	(1,072)
At 31st March 2013	704,395	512,966	55,871	138,650	2,514	2,015	42,962	1,459,373
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	986,673

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Movements in 2013/14

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

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Tangible non-current assets have been valued as follows:

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

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

A five year rolling programme of revaluations is undertaken for all assets except council dwellings, which are revalued annually. All valuations have been carried out by Royal Institute of Chartered Surveyors (RICS) qualified staff from the Council's Corporate Assets, Business & Standards Service in accordance with the practice statements and guidance notes contained in the RICS manual of Appraisal and Valuation 5th Edition 2003 (as amended). The assets are valued as at 31st March 2014.

The beacon principle has been used to value the HRA council housing stock. A sample property "the Beacon" is selected from a group of properties that are of similar design, age, type or construction and a detailed valuation carried out. The valuation is then applied to all properties in that group. The basis of valuation is Existing Use Value for Social Housing. EUV-SH uses the vacant possession value of the dwelling as a starting point, on the assumption that each property is to be used as residential accommodation that will be occupied by a secure tenant. This figure is then amended by a regional adjustment factor of 32% to reflect the fact that sitting tenants enjoy lower than open market rents and rights, including Right to Buy. HRA non-dwelling properties use the existing use value (EUV) method of valuation for non-specialist operational properties, and depreciated replacement cost (DRC) for specialist operational properties. In 2013/14 £13.7m was reversed against previous impairment losses in the Surplus or Deficit on the Provision of Services.

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

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

	Property, Plant & Equipment						Investment Property	Held for Sale	Assets Under construction	Total
	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	community Assets	Surplus Assets				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2013/14	453,177	165,790	5,631	8,826	168	1,176	13,230	774	-	648,772
2012/13	-	92,251	1,501	5,414	37	270	9,714	-	-	109,187
2011/12	-	21,369	5,259	15,365	1,074	37	5,105	-	-	48,209
2010/11	-	49,755	4,613	14,492	1,315	-	5,950	-	-	76,125
2009/10	-	1,130	5,064	60,299	-	-	3	-	-	66,496
Valued at Historic Cost	-	4,191	9,059	5,096	-	-	-	-	84,216	102,562
	453,177	334,486	31,127	109,492	2,594	1,483	34,002	774	84,216	1,051,351

Depreciation

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

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

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

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11. SIGNIFICANT COMMITMENTS FOR FUTURE CAPITAL EXPENDITURE

(a) Future Approved Capital Programme

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

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

(b) Contractual Commitments

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

Capital Contracts	£000
Westminster and Wingfield Street external works & improvements	1,110

12. INVESTMENT PROPERTIES

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

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

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

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

13. FINANCIAL INSTRUMENTS

a) Financial Instrument Balances

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

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

The above balances are shown net of impairments. There are no impairments in the Council's financial instruments apart from current loans and receivables. Impairments to current loans and receivables were £6.8m at 31st March 2014 (£5.4m at 31st March 2013). All outstanding debt is pursued until such time as it becomes uneconomic or disproportionate to the administrative effort required. The Council only holds collateral in relation to debts arising from commercial tenancies.

The loans and receivables figures in the table above include interest free loans. £5.8m has been advanced to enable private dwellings to be improved to a decent standard. Interest will accrue on these loans after an initial five year period.

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b) Financial Instruments Gains / Losses

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

2012/13	Financial Liabilities Measured at Amortised Cost £000	Financial Assets 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)	20,980

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

The Authorities maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed in general, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Authority's deposits, but there was no evidence at the 31st March 2014 that this was likely to crystallise.

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

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

The credit agencies have down rated many financial institutions over the last few years. A concern expressed by the credit rating agencies is the Banking Act 2009. The Banking Act 2009 gives the Authorities greater flexibility to resolve financial institutions problems, which for example could lead to different treatment of wholesale senior unsecured debt, which would include the Council's investments, compared to other liabilities. Despite this, at 31st March 2014 the Council did not have any investments with institutions that met the Council's investment criteria at the time the investment was made, but no longer meet the Council's current criteria.

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

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

Liquidity Risk

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

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

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

Borrowing is as follows:

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

Market Risk

Interest Rate Risk

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

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

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- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise
- Investments at fixed rates – the fair value of investments will fall. Where fixed rate investments have short maturities, the effect will be similar to that for variable rate investments, as the replacement investments will generate more income to the Comprehensive Income and Expenditure Statement.

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

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

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

According to this assessment strategy, at 31st March 2014, if interest rates had been 0.5% higher with all other variables held constant, the financial effect would be an increase in investment income of £0.8m. The impact of a 0.5% fall in interest rates would have been a reduction in investment income of £0.8m.

14. CONSTRUCTION CONTRACTS

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

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15. SHORT-TERM DEBTORS

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

16. CASH AND CASH EQUIVALENTS

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

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

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

17. ASSETS HELD FOR SALE

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

18. SHORT-TERM CREDITORS

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

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19. PROVISIONS

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

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

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

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20. UNUSABLE RESERVES

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

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.

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

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Available for Sale Financial Instruments Reserve

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

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

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

Capital Adjustment Account

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

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

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

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Pensions Reserve

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

2012/13	2013/14
£000	£000
321,848 Balance at 1 April	350,627
(19,200) Return on plan assets	(6,704)
48,196 Actuarial (gains) and losses on pensions assets and liabilities	(56,291)
19,210 Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	35,623
(19,427) Employer's pensions contributions and direct payments to pensioners payable in the year	(20,578)
350,627	302,676

Collection Fund Adjustment Account

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

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2012/13 £000		2013/14 £000
355	Balance at 1 April	24
(331)	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	6,063
24		6,087

Accumulating Compensated Absences Adjustment Account

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

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

Deferred Capital Receipts

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

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expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

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

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

21. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

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

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22. CASH FLOW STATEMENT – INVESTING ACTIVITIES

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

23. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

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

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

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

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

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

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

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

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<u>Reconciliation to Subjective Analysis (Single Entity) 2013/14</u>	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	(82,391)	(79,382)	0	5,942	(155,831)	(356)	(156,187)
Surplus or deficit on associates and joint ventures	0	0	0	0	0	(150)	(150)
Interest and investment income	0	0	0	0	0	(3,510)	(3,510)
Income from Council Tax	0	0	0	0	0	(60,610)	(60,610)
Government grants and contributions	(267,789)	0	(1,225)	11,521	(257,493)	(211,574)	(469,067)
Changes in the fair value of Investment Properties	0	0	0	0	0	(5,780)	(5,780)
Total Income	(350,180)	(79,382)	(1,225)	17,463	(413,324)	(281,980)	(695,304)
Employee expenses	196,563	13,958	18,177	(17,213)	211,485	14,887	226,372
Other service expenses	257,180	36,905	1,241	(1,000)	294,737	1,18	294,855
Support Service Recharges	27,673	0	0	0	27,673	0	27,673
Depreciation, amortisation and impairment	22,723	159	0	214	23,096	(214)	22,882
Interest Payments	0	0	0	0	0	24,851	24,851
Precepts and Levies	0	0	0	0	0	36	36
Payments to Housing Capital Receipts Pool	0	0	0	0	0	751	751
Loss on disposal of Non-Current Assets	0	0	0	0	0	29,987	29,987
Total Operating Expenses	504,139	51,022	19,418	(17,999)	556,991	70,416	627,407
Surplus or deficit on the provision of services	153,959	(28,360)	18,193	(536)	143,667	(204,889)	(67,897)

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<u>Reconciliation to Subjective Analysis (Single Entity) 2012/13</u>	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	0	0	0	0	0	(68,928)	(68,928)
Government grants and contributions	(270,662)	0	(412)	11,521	(259,553)	(150,212)	(409,765)
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)	(229,597)	(620,774)
Employee expenses	201,319*	13,347	16,685	(15,941)	215,410	14,530	229,940
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
Total Operating Expenses	511,088	57,325	17,097	(18,606)	566,904	54,976	621,880
Surplus or deficit on provision of services	175,959	(15,131)	16,685	(1,786)	175,727	(174,621)	1,106

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

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

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24. ACQUIRED AND DISCONTINUED OPERATIONS

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

25. AGENCY SERVICES

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

26. POOLED BUDGETS

(a) Adult Mental Health & Substance Misuse

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

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

(b) Integrated Commissioning Unit

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

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(c) Continuing Health Care (CHC)

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

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

* - This surplus has been carried forward into 2014/15 in accordance with clause 11.6(i) of the Section 75 agreement.

The CHC is not a true pooled budget as there are two separate pots of monies maintained for both the Council and the CCG. The £0.9m surplus relates solely to the CCG and not the Council.

27. MEMBERS ALLOWANCES

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

28. OFFICERS REMUNERATION

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

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2012/13 Number of employees		2013/14 Number of employees
88	£50,000 to £54,999	74
66	£55,000 to £59,999	60
32	£60,000 to £64,999	44
18	£65,000 to £69,999	12
11	£70,000 to £74,999	12
7	£75,000 to £79,999	9
6	£80,000 to £84,999	6
9	£85,000 to £89,999	6
1	£90,000 to £94,999	2
0	£95,000 to £99,999	0
1	£100,000 to £104,999	0
5	£105,000 to £109,999	5
0	£110,000 to £114,999	0
1	£115,000 to £119,999	0
0	£120,000 to £124,999	0
0	£125,000 to £129,999	0
0	£130,000 to £134,999	0
0	£135,000 to £139,999	0
0	£140,000 to £144,999	0
1	£145,000 to £149,999	1
246		231

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Senior Officers Emoluments in 2013/14

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

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 Children & Adult Services	109,430	109,430	14,335	123,765
Section 151 Officer & Head of Financial Services	88,437	88,437	11,585	100,022
Director of Regeneration	109,430	109,430	14,335	123,765
Director of Support Services	109,430	109,430	14,335	123,765
Port Manager	109,430	109,430	14,335	123,765
Director of Public Health (Note 1)	27,358	27,358	3,830	31,188
Solent Local Enterprise Partnership Chief Executive	107,223	107,223	14,046	121,269

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

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Senior Officers Emoluments in 2012/13

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

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

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

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

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

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29. EXTERNAL AUDIT COSTS

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

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

No other non-statutory services were provided.

30. DEDICATED SCHOOLS GRANT

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

Details of the deployment of DSG receivable for 2013/14 are as follows:

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

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31. GRANT INCOME

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

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

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

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

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

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

32. RELATED PARTIES

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

Central Government

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

Members

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

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

Officers

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

Other Public Bodies

The City Council appoints two members to the Portchester Crematorium Joint Committee, has 25% of the voting rights on the Joint Committee and receives 25% of the dividends. The other

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

Entities Controlled or Significantly Influenced by the Council

Portsmouth City Council trades extensively with its subsidiary MMD. Details of the relationship between the City Council and its subsidiary are provided in note 44.

In December 2010, Portsmouth City Council created an independent Not for Profit Distributing Organisation called the Portsmouth Cultural Trust to take over the running of the Portsmouth Guildhall. As part of a two year Partnering and Funding Agreement between Portsmouth City Council and The Portsmouth Cultural Trust, a revenue contribution of £0.5m per annum was agreed to be paid to the Portsmouth Cultural Trust to assist in the operational management of the Portsmouth Guildhall. Councillor Terry Hall currently resides on the board of trustees as a Portsmouth City Council Representative. A meeting is held between both parties every quarter to review the financial performance of the Portsmouth Cultural Trust in which Portsmouth City Council provide advice and guidance in a supporting capacity as required.

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33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

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

34. LEASES

Authority as Lessee

Finance Leases

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

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

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

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

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

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

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

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

The Authority has sub-let some of the industrial accommodation held under these finance leases. At 31st March 2014 the minimum payments expected to be received under non-cancellable sub-leases was £0.4m (£0.3m at 31st March 2013).

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Operating Leases

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

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

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

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

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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 2013 £000	31 March 2014 £000	31 March 2012 £000	31 March 2013 £000
Not later than one year	648	602	648	602
Later than one year and not later than five years	1,886	1,298	1,613	1,298
Later than five years	2,872	2,858	2,769	2,482
	5,406	4,758	5,030	4,382

The

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

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

Operating Leases

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

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

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

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

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

35. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

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

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

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

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

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

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

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	Miltoncross Secondary School £000	Learning Disability Facilities £000	Highways Maintenance £000	Waste Disposal £000	Total £000
Cost or Valuation					
At 1st April 2012	22,678	7,274	89,463	14,107	133,522
Additions	0	0	7,158	0	7,158
Revaluations	0	0	0	0	0
Reclassifications	21	0	3,348	0	3,369
At 1st April 2013	22,699	7,274	99,969	14,107	144,049
Additions	0	0	0	0	0
Disposals	0	0	(688)	0	(688)
Revaluations	(1,021)	(131)	0	2,419	1,267
Reclassifications	27	0	3,470	0	3,497
At 31st March 2014	21,705	7,143	102,751	16,526	148,125
Depreciation					
At 1st April 2012	(340)	(113)	(13,262)	(2,664)	(16,379)
Charge in Year	(340)	(113)	(2,367)	(890)	(3,710)
Revaluations	0	0	0	0	0
Reclassifications	0	0	0	0	0
At 1st April 2013	(680)	(226)	(15,629)	(3,554)	(20,089)
Charge in Year	(340)	(113)	(2,423)	(890)	(3,766)
Disposals	0	0	688	0	688
Revaluations	1,021	339	0	0	1,360
Reclassifications					
At 31st March 2014	1	0	(17,364)	(4,444)	(21,807)
Impairment					
At 1st April 2012	(1,489)	(743)	(4,007)	(92)	(6,331)
Charge in Year	(21)	0	0	0	(21)
Reclassifications	0	0	0	0	0
At 1st April 2013	(1,510)	(743)	(4,007)	(92)	(6,352)
Charge in Year	1,173	476	(12)	92	1,729
Reclassifications	0	0	0	0	0
At 31st March 2014	(337)	(267)	(4,019)	0	(4,623)
Net Book Value					
At 1st April 2012	20,849	6,418	72,194	11,351	110,812
At 31st March 2013	20,509	6,305	80,333	10,461	117,608
At 31st March 2014	21,369	6,876	81,368	12,082	121,695

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

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

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

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

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

36. LIABILITY RELATING TO DEFINED BENEFIT PENSION SCHEME

Participation in Pension Schemes

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

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The council participates in three post-employment schemes:

The Local Government Pension Scheme (LGPS) administered locally by Hampshire County Council - this is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits earned after 31 March 2014 are based on a Career Average Revalued Earnings scheme.

The funded nature of the LGPS requires the council and to employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The Teachers' Pension Fund for teaching staff - this is an unfunded defined benefit scheme, administered by the Department for Education. Details of this fund are disclosed in Note 37.

The Pilots National Pension Fund (PNPF) - this is a centralised multi-employer 'defined benefit' pension scheme for non-associated employers. The Trustee of the PNPF has previously sought clarification from the High Court on the Trustee's powers under the Rules of the PNPF. Until the status of the PNPF had been clarified, the council was unable to determine its share of the liabilities. Following the court's determination and further information being made available on the extent of the PNPF's liabilities, the council was able to determine its share of the liabilities in the PNPF for the first time. As a result The PNPF was accounted for on a 'defined benefit' basis from the year ended 31 March 2013.

Transactions Relating to Post-employment Benefits

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

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

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

Assets and Liabilities in relation to retirement benefits

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

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

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

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

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

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

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

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Scheme history

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

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £302.7m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made by the council in the year to 31 March 2015 is £18.2m for the LGPS and £8,000 for the PNP Scheme.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The council's fund liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the council fund being based on the latest valuation of the LGPS as at 31 March 2013 and the latest valuation of the PNP as at 31 December 2010. These calculations have been updated to 31 March 2014 by Aon Hewitt Limited allowing for the IAS 19 financial and demographic assumptions.

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

Commutation: LGPS

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

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Commutation: Pilots Pension Scheme

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

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

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

37. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

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

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

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 36.

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38. LONG TERM DEBTORS

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

39. OTHER LONG TERM LIABILITIES

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

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40. HERITAGE ASSETS: FIVE – YEAR SUMMARY OF TRANSACTIONS

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

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41. HERITAGE ASSETS: FURTHER INFORMATION

a) Historic Buildings

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

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

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

b) Museum Collection

The Council has four museums, namely the D Day Museum, the City Museum, Charles Dickens Birthplace and Cumberland House. The museum collections are valued at £14.8m.

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

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

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

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

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

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c) Archives

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

42. TRUST FUNDS

Portsmouth City Council acts as one of several trustees for four trust funds. The funds' assets do not represent assets of the Council and therefore they have not been included in the balance sheet. The Trust funds are involved in charitable activities within Portsmouth. At 31 March 2013 the trust funds had £5.0m of investments. In 2013/14 the administration and the Council's trusteeship responsibilities for most of the trust funds were transferred to the Hampshire and Isle of Wight Community Foundation. At 31 March 2014, the remaining trust funds of which the Council was a trustee had investments amounting to £0.2m.

43. EXIT PACKAGES

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

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

44. OTHER COMPANIES

MMD (Shipping Services) Limited

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

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The Council owns 100% of the shares in MMD which are carried in the Council's balance sheet under long term investments at their net worth of £4.6m.

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

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

The Council's exposure to losses arising from its ownership of MMD is therefore limited to £8.4m, i.e. the value of its shares in the company, the funds lodged with Lloyds TSB and the outstanding capital loans advanced to MMD.

The City Council sold £0.8m (£2.4m in 2012/13) of goods and services to MMD during 2013/14. In addition the Council received £0.3m (£0.3m in 2012/13) of pilotage income through MMD.

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

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

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

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

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

45. EXCEPTIONAL ITEMS

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

46. LOSS ON DISPOSAL OF NON CURRENT ASSETS

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

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47. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Head of Financial Services and Section 151 Officer on 30 June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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COLLECTION FUND

The Collection Fund is an agent's statement that reflects the statutory obligation for billing Authorities to maintain a separate Collection Fund. The Statement shows the transactions of the billing Authority in relation to the collection taxes and their distribution to local Authorities and the Government. Although the Collection Fund is a single account it has two distinct elements, Council Tax and Business Rates.

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

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

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1. Council Tax Base

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

Band	Estimated no. of taxable properties after allowing for discounts, exemptions etc.	Ratio	Band D equivalent dwellings
A	12,700	6/9	8,467
B	20,591	7/9	16,015
C	16,910	8/9	15,031
D	4,808	9/9	4,808
E	2,987	11/9	3,651
F	1,449	13/9	2,093
G	585	15/9	975
H	24	18/9	47
	60,054		51,087
Less: adjustment for non-collection			(1,226)
Add: MoD dwellings contribution			640
2013/14 tax base			50,501

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

2. Income from business ratepayers

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

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

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

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

3. Collection Fund surpluses & deficits

Surpluses or deficits incurred on the Collection Fund must be either distributed or made good by specific contributions. Any surplus or deficit anticipated on Council Tax revenues must be allocated between authorities precepting on the Collection Fund pro rata to their demands on the Collection Fund and transferred to or financed by their General, County Fire or Police fund. The Council Tax part of the Collection Fund has realised a surplus of £1.9m as at 31 March 2014, this is £0.5m higher than the surplus of £1.4m that was estimated in January 2014. The City Council's share of the Collection Fund surplus on this part of the fund is £1.6m the Police Authority's share is £0.2m and the Fire and Rescue Authority's share is £0.1m. The precepting authorities' aggregate shares of council tax assets and liabilities are included within Debtors in the Balance Sheet.

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

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HOUSING REVENUE ACCOUNT (HRA)

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

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

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MOVEMENT ON THE HRA STATEMENT

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

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

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

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

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

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

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NOTE TO THE MOVEMENT ON HRA STATEMENT

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

Notes on the Housing Revenue Account:

Gross Rent Income

This is the gross rent income for the year after allowance is made for voids etc. During the year, 1.55% of lettable dwellings were vacant. In 2012/13 the figure was 1.15%. The average dwelling rent was £79.44 per week in 2013/14, an increase of £4.45 over the previous year.

Depreciation of non-current assets

The depreciation charge is broken down as follows:

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

Impairment

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

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

IAS 19 - Accounting for pensions

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

Capital Reserve

A Capital Reserve was established during 1991/92 as part of the Housing Investment Programme (HIP) financing policy. A contribution from the reserve of £8.9m was made during the year.

1) Transfer to/from major repairs reserve

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

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

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

Housing stock

The Council was responsible for managing an average of 15,121 dwellings (excluding mobile homes) during 2013/14. The stock as defined by the Housing Revenue Account Subsidy regulations at 31st March was as follows:

Housing Stock:	Number of dwellings		
	2011/12	2012/13	2013/14
Houses	4,574	4,566	4,521
Flats	10,610	10,612	10,544
	15,184	15,178	15,065
Mobile homes	117	117	117
	15,301	15,295	15,182

The change in stock can be summarised as follows:

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

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

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

Vacant possession value of dwellings within the HRA

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

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

3) Capital expenditure within the HRA

Capital expenditure during the year and its financing was:

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

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Exceptional items and prior period adjustments

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

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

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

4) Bad Debt Provision

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

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

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

6) Sums directed by the Secretary of State

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

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

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GLOSSARY OF TERMS

Assets

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

Capital Expenditure

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

Capital Financing

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

Capital Receipts

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

CIPFA

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

Collection Fund

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

Community Assets

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

Comprehensive Income & Expenditure Statement

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

Contingent Liabilities

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

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Continuing Service

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

Corporate & Democratic Core

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

Creditor

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

Debtor

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

Deferred Capital Receipts

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

Depreciation

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

Exceptional Items

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

Finance Lease

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

General Fund

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

Housing Revenue Account (HRA)

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

Impairment

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

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Intangible assets

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

Interest Cost (pensions)

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

International Financial Reporting Standards (IFRS)

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

Inventories

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

Investment (Pension Fund)

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

Landfill Allowances Trading Scheme (LATS)

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

Long-Term Debtor

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

Materiality

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

Minimum Revenue Provision (MRP)

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

Movement in Reserves Statement

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

Non-Current Assets

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

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Non-Distributed Costs

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

National Non-Domestic Rates (“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. 49% of non-domestic rates are retained by the Council. Of the remainder, 50% is paid to the Government and 1% is paid to the Hampshire Fire and Rescue Authority.

Net Assets

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

Operating lease

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

Pension scheme liabilities

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

Precept

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

Provision

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

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

Revenue Support Grant

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

Short-Term Borrowing

Money borrowed for a period of less than one year.

Trust Funds

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

Useful Economic Life (UEL)

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