
NOTICE OF MEETING

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

FRIDAY, 20 NOVEMBER 2020 AT 2.00 PM

VIRTUAL REMOTE MEETING - REMOTE

Telephone enquiries to 023 9283 4058
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Membership

Councillor Leo Madden (Chair)
Councillor Simon Boshier (Vice-Chair)
Councillor John Ferrett
Councillor Judith Smyth
Councillor Tom Wood
Councillor Neill Young

Standing Deputies

Councillor Matthew Atkins
Councillor Ben Dowling
Councillor Graham Heaney
Councillor Donna Jones
Councillor Terry Norton

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

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

Deputations

A written deputation stating to which agenda decision item it refers must be received by the officer named at the top of the agenda **by 12 noon two working days preceding the meeting.** Any written deputation received by email will be sent to the Members on the relevant decision making body and be referred to and read out at the meeting within permitted time limits

AGENDA

1 Apologies for Absence

2 **Declarations of Members' Interests**

3 **Minutes of the meetings held on 3 March and 25 September 2020** (Pages 7 - 26)

RECOMMENDED that the minutes of the meetings held on 3 March 2020 and 25 September 2020 each be approved and signed by the Chair as a correct record.

4 **2019/20 Audit Results Report** (Pages 27 - 86)

Portsmouth City Council's Audit Results - for noting.

5 **Annual Governance Statement** (Pages 87 - 108)

The purpose of the report is to seek approval from the Governance and Audit and Standards Committee for the council's Annual Governance Statement (AGS) for 2019/20.

RECOMMENDED that the Committee is asked to agree the **Annual Governance Statement 2019/20 (Appendix 1)**

(to be signed off before the Statement of Accounts)

6 **Risk and assurance management policy** (Pages 109 - 120)

The purpose of the report is to present the council's risk and assurance management policy to the Governance and Audit and Standards Committee for approval.

RECOMMENDED that the Governance and Audit and Standards Committee is asked to:

- 1) **Approve the attached Risk and Assurance Management Policy**
- 2) **Agree to review the risk management policy in November 2022, including risks current at the time and lessons learnt over the previous year**

7 **Annual Statement of Accounts 2019/2020** (Pages 121 - 308)

The purpose of the report is to consider the Statement of Accounts for 2019/20.

RECOMMENDED

- (1) That the Statement of Accounts be approved
- (2) That authority be delegated to the Chair of the Governance and Audit and Standards Committee to sign an amended 2019/20 Statement of Accounts after 20th November should this be required following comments by the auditor

8 Treasury Management Mid-Year Review (Pages 309 - 322)

The purpose of the report is to inform members and the wider community of the Council's Treasury Management position, ie. its borrowing and cash investments at 30th September 2020 and of the risks attached to that position.

Whilst the Council has a portfolio of investment properties and some equity shares which were acquired through the capital programme; these do not in themselves form part of the treasury management function

RECOMMENDED to note

- (1) That the Council's Treasury Management activities have remained within the Treasury Management Policy 2020/21 in the period up to 30th September 2020.
- (2) The actual Treasury Management indicators as at 30th September 2020 set out in Appendix A.

9 PCC companies - Shareholder Committee terms of reference (Pages 323 - 358)

The report originally marked "to follow" was published on 13 November.

Purpose

In accordance with the Cabinet meeting of 26 March 2020 and the recommendation... *the City Solicitor prepares and drafts a protocol - by the Governance and Audit Committee as a reference and guide for the overall corporate governance structure (i.e. company structure and board composition) relating to PCC owned companies and incorporated within the PCC's constitution.*

This report sets out the detail and terms of reference to be included within the constitution and adopted by the to be incorporated Shareholder Committee

RECOMMENDED

- (1) Approve the Shareholder Committee terms of reference at appendix A and delegate to the City Solicitor they are incorporated within the Council's constitution; and
- (2) Note the Local Government Lawyer best practice guidance (at appendix B) and delegation provided to the City Solicitor to work with all PCC owned companies to ensure the necessary constitutional changed and guidance is on boarded by the Shareholder Committee post incorporation

10 Compliance with Gifts & Hospitality protocol (Pages 359 - 380)

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

RECOMMENDED that

- (1) **The Committee considers whether or not to make any recommendations for change.**
- (2) **In the absence of any changes, the report is noted.**

- 11 Internal Audit Performance Status Report to 6 November 2020.** (Pages 381 - 408)

The purpose of the report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2020/21 to 6th November 2020 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

RECOMMENDED that Members note the Audit Performance and results for 2020/21 to 6th November 2020.

- 12 Consideration of the political balance rules in relation to the constitution of Sub-Committees considering complaints against Members.** (Pages 409 - 410)

The purpose of the report is to ask the Committee to consider whether it wishes to disapply the political balance rules in respect of its Sub-Committees which consider complaints against Members and to agree that the same rule shall apply to the Initial Filtering Panel.

RECOMMENDED that the political balance rules are disapplied in respect of Governance and Audit and Standards Sub-Committees which are considering complaints against Members and also the same arrangement should apply in respect of Initial Filtering Panel membership.

- 13 Data Security Breach Report** (Pages 411 - 426)

The purpose of the report is to inform the Committee of any Data Security Breaches and actions agreed/taken since the last reporting period along with an analysis over the year for the period November 2019 to October 2020.

RECOMMENDED that Members of the Governance & Audit & Standards Committee note the breaches (by reference to Appendix A) that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).

- 14 Exclusion of Press and Public**

In view of the contents of the appendices to the following item on the agenda the Committee is RECOMMENDED to adopt the following motion:

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

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

Under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012, regulation 5, the reasons for exemption of the listed appendices are shown below. (NB The exempt/confidential committee papers on the agenda will contain information which is commercially, legally or personally sensitive and should not be divulged to third parties. Members are reminded of standing order restrictions on the disclosure of exempt information and are asked to dispose of exempt documentation as confidential waste at the conclusion of the meeting.

Item	Exemption Para No.*
15. Procurement Management Information (Exempt Appendices 1, 2 and 3)	3
*3. Information relating to the financial or business affairs of any particular person (including the authority holding that information	
15 Procurement Management (information only) (Pages 427 - 438)	

The purpose of the report is to provide evidence to allow the committee to evaluate the extent that Portsmouth City Council is producing contracts for goods, works and services in a legally compliant value for money basis.

The report is for noting.

This meeting is webcast (videoed), viewable via the Council's livestream account at <https://livestream.com/accounts/14063785>

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Agenda Item 3

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Tuesday, 3 March 2020 at 4.00 pm in the Executive Meeting Room, Third Floor, The Guildhall, Portsmouth.

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

Present

Councillor Leo Madden (in the chair)

Councillor Graham Heaney
Councillor Hugh Mason
Councillor Terry Norton
Councillor Neill Young

Officers

Peter Baulf, City Solicitor and Monitoring Officer
Elizabeth Goodwin, Chief Internal Auditor
Paul Somerset, Deputy Chief Internal Auditor
Julian Pike, Deputy Head of Finance & Deputy S151 Officer
Michael Lloyd, Directorate Finance Manager
Kelly Nash, Corporate Performance Manager
Charlotte Smith, Assistant Director, Communications
Greg Povey, Assistant Director Contracts, Procurement, Commercial

External Auditors

Helen Thompson,
David White, Manager, Assurance - Government and
Public Sector, Ernst & Young

1. Apologies for Absence (AI 1)

Apologies for absence were received on behalf of Councillors Simon Boshier, John Ferrett and Judith Smyth.
Councillor Terry Norton deputised for Councillor Boshier and Councillor Graham Heaney deputised for Councillor Judith Smyth.

(The Chair agreed to vary the order of items on the agenda but these have been kept in their original place for ease of reference.)

2. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

3. Minutes of the Meeting held on 20 September 2019 (AI 3)

RESOLVED that the minutes of the meeting held on 20 September 2019 be approved and signed by the Chair as a correct record.

4. Treasury Management Monitoring Report for the Third Quarter of 2019/20 (AI 4)

(TAKE IN REPORT)

Michael Lloyd introduced the report explaining that there had been no breaches of the Treasury Management Policy. He said there had been no new borrowing in Quarter 3.

During discussion

- With regard to page 23 concerning cheaper sources of borrowing, Mr Lloyd said he considered it would be possible to find cheaper rates of borrowing in the new environment - probably around 0.3% less than borrowing from the Public Works Loan Board.(PWLB)
- In response to a query about why the PWLB had increased its rates, Mr Lloyd said that local authorities had been increasingly investing in commercial property - sometimes borrowing huge amounts of money from PWLB to do so. It seems that government was not entirely happy with this situation. Increasing the PWLB rates is a way of dissuading local authorities from acting in this way although there are likely to be other factors influencing that decision - such as the PWLB approaching the limit on what it can lend. He confirmed the increase in rates would have an impact on all borrowing - not just that for commercial purposes.
- It was confirmed that the Hampshire Community Bank had still not received its Banking Licence but that it was expected before long. Mr Lloyd said he would let Committee members know as soon as he could as to when the Banking Licence would be obtained and would also provide information on when the City Council could expect a return on its investment.

RESOLVED that the Committee noted

- (1) That the Council's Treasury Management activities have remained within the Treasury Management Policy 2019/20 in the period up to 31 December 2019**
- (2) The actual Treasury Management indicators as at 31 December 2019 set out in Appendix A.**

5. Treasury Management Policy for 2020/21 (AI 5)

(TAKE IN REPORT)

Michael Lloyd introduced the report advising that the report was before this committee for scrutiny and comment and that it would also be going on to Cabinet and then to Full Council on 17 March for approval. He detailed the recommendations in the report.

The main changes are a recommendation that preference should be given to investments that support the environment, have a beneficial social impact and good governance - provided that these do not increase the risks to the Council in terms of security of investment or liquidity nor which give lower returns.

The other main change concerns lending to the Hampshire Community Bank. Previously loans were to be secured on loans given by the bank which in turn were to be secured on tangible fixed assets. However many of the Bank's potential borrowers do not have tangible assets. A recommendation has been included this time to allow lending to HCB to be secured on loans made by HCB to small and medium sized enterprises on the highest credit quality which may not in turn be secured on tangible fixed assets. In addition it is recommended that the maximum duration of loans to HCB be reduced from 10 to 5 years.

In answer to queries

- The risk of default will be addressed by ensuring loans are given to counterparties of good credit-worthiness. In case of default, HCB will secure on personal guarantees which it is accepted are not as good as securing on tangible assets. However the risk is also mitigated by reducing the duration of the loans.
- The City Solicitor confirmed that loans secured on tangible assets are more secure, but loans secured on personal guarantees are quite common and there is no legal difference.
- It was confirmed that investing in an environmentally friendly and socially beneficial way will not necessarily produce lower returns. Environmentally harmful concerns are likely to be subject to more stringent regulations in future.

The Chair complimented the author on a well-written report.

RESOLVED that the Committee noted the recommendations in section 3 of the report that will go on to Cabinet and then to Full Council for approval.

6. External Auditors -2019/20 Audit Plan (AI 6)

(TAKE IN PLAN)

Helen Thompson and David White, external auditors, first updated the Committee on matters relating to the timing of the audit. Auditors are required to deliver quality audits both in the corporate and public sectors but there has been a shortage of suitably qualified staff across the audit profession to carry out the work required. The timing of audits to meet deadlines has become an issue given the volume of work and the shortage of staff. It has now been established that the 31 July deadline means that narrative statements have to be published by then - with or without an audit opinion.

The external auditors have been in discussion with Portsmouth City Council (PCC) and the Chair of this Committee in relation to the timing of PCC's audit and were very grateful that agreement had been reached to re schedule it to a later date. They assured the Committee that this is in no way a reflection on the quality of PCC's financial statements or officers but is a mutually agreed position. It will have no reputational impact on PCC but will allow external auditors more time to do the necessary work. External Audit is now looking to re-schedule the work to start in August/September until October aiming to report to this Committee at its November meeting.

The Chair commented that he had no issues with this provided it was above board and legal. This assurance was given.

In response to concerns that this would mean risks potentially not being identified till much later in the year, the Committee was assured that risks most likely to have an impact had already been identified as part of the interim audit and that the auditors would be in close contact with officers all the way through the work. If anything unexpected were to be identified as a risk, the External Auditors would advise PCC as soon as they became aware of that. The timing of meetings to fit in with the audit work and finance work would be reviewed by Finance staff and Democratic Services.

With regard to the Audit Plan, David White drew Members' attention to the risks set out in section 02 of the Audit Planning report. External auditors are required to include the first two risks but there is a newly identified risk relating to the acquisition of Lakeside. He advised that this would require a specialist valuation which was already underway.

David White also drew Members' attention to page 16 of the Audit Planning report in relation to IFRS 16 - Leases. Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. The Code has yet to be published although guidance to practitioners is available. The main impact of IFRS 16 is to remove (for lessees) the traditional distinction between finance leases and operating leases as detailed in the report. Assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. Work would be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

In response to a query, it was confirmed that when the Code is published, this was not expected to cause PCC any problems as officers have the necessary work in hand.

The Committee noted the contents of the 2019/20 Audit Plan.

7. Corporate Complaints (updated)(information only) (AI 7)

(TAKE IN REPORT)

Charlotte Smith, Assistant director of Corporate Services, introduced the report which was to provide additional information requested by the Committee in relation to complaints upheld by the Local Government and Social Care Ombudsman (LGSCO).

The report concluded that the number of complaints referred to and upheld by the LGO has remained relatively static and PCC continues to compare well with other local authorities.

The Chair thanked officers for the report and asked for this level of detail to be included in future reports.

The Committee noted the updated information only report.

8. Members' Training Report (information only) (AI 8)

(TAKE IN REPORT)

The City Solicitor, introduced the report which updated the Committee on the 2020 training programme for councillors and reported on the training undertaken by elected members in 2019.

Training is provided and it is up to Members to access it as appropriate.

During discussion

- Although training is not compulsory as such, Members would not be allowed to sit on some committees/panels without first being trained.
- The Chair commented that Group Leaders could be pro-active in encouraging their members to complete relevant training.

The Committee noted the updated information only report.

9. Appointment of Independent Persons (AI 9)

(TAKE IN REPORT)

The City Solicitor introduced the report which outlined the reasons for the suggested appointment of two additional Independent Persons under the provisions of the Localism Act 2011.

There are currently two Independent Persons whose appointments expire in 2021. It is considered that the appointment of an additional two Independent Persons will assist with the complaints process.

The City Solicitor advised that following an advertisement for additional Independent Persons, interviews were held on 6 February 2020. The Member Panel (that included the Chair and Vice Chair of Governance & Audit & Standards Committee) recommended that Mark Walsh and John Young be appointed.

The Committee endorsed the Member Panel's recommendation.

RESOLVED that the Committee recommend that Council appoints Mark Walsh and John Young as Independent Persons for three years from 1 May 2020 through to 1 May 2023.

10. Quarterly Performance Management Report (AI 10)

(TAKE IN REPORT)

Kelly Nash, Corporate Performance Manager, introduced the report which is part of a regular series of quarterly reports highlighting significant performance issues across the organisation.

Appendix 1 summarises directorate issues, Appendix 2a provides a summary of performance issues, Appendix 2b provides the performance issues in detail and Appendix 3 identifies projects.

During discussion

- Members asked for more detail in relation to the Care Quality Commission service ratings percentages on the first page of Appendix 2a. in relation to nursing homes, residential homes, domiciliary and community. They asked what was included in these assessments and why community was showing red. The Corporate Services Manager said she would find out and let the Committee know.
- Under the priority headed "encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live work and visit," members suggested that the success of the Enterprise Centres measured through occupancy levels should be taken to the relevant Cabinet Member. There appears to be great demand for small affordable work space in the right location so increased supply would be of value to the City. Kelly Nash said that she would pass this on.

The Chair thanked the Corporate Performance Manager for her report.

RESOLVED that the Committee

- (1) Noted the report in the revised format**
- (2) Agreed if any further action is required in response to performance issues highlighted**

11. Code of Conduct Report re Social Media (AI 11)

The City Solicitor introduced the report which gives members the opportunity to consider the proposed wording to add to the Employees' Code of Conduct in respect of an employee's use of social media set out in Appendix A. The background is included in section 3 of the report and the reasons for the recommendations are set out in section 4.

During discussion

- It was agreed that a report would be brought back to this Committee in a year's time to consider how the introduction of the new section has worked in practice
- The City Solicitor said that although no monitoring would take place, the wording gives clarity to employees and the employer about what is expected of them in this context. If the Code is not adhered to it could become a disciplinary matter.

RESOLVED that the Committee

- (1) Noted the importance of informing an employee about personal use of social media**
- (2) Supported the wording presented in Appendix A for inclusion in the Employees' Code of Conduct**
- (3) Agreed for the revisions to be recommended to Full Council.**

12. Gifts and Hospitality report (officers and members) (AI 12)

(TAKE IN REPORT)

The City Solicitor introduced the report advising that protocol requires an annual report on compliance to enable the Committee to recommend changes if they considered that to be necessary. Details of what can and cannot be accepted are detailed in section 4 of the report. Appendices 1 to 7 provide details of gifts received.

The City Solicitor confirmed that none of the declarations gave him cause for concern.

During discussion it was confirmed

- that the register was published on the Council's website
- that the period covered ran from October one year to October the next.

RESOLVED

- (1) That the Committee considered whether or not to make any recommendations for change**
- (2) That in the absence of any changes, the report was noted.**

13. Report on Complaints Received in connection with alleged Code of Conduct breaches (AI 13)

(TAKE IN REPORT)

The City Solicitor introduced the report advising that there had not been many complaints against members during the period covered. The complaints mainly related to social media and all but one had been dealt with at the Initial Filter Panel (IFP) stage.

RESOLVED that the Committee

- (1) Noted the report**
- (2) Considered whether any further action is required by them.**

14. Constitution Part 2 Section 5 (A, B and C). (AI 14)

(TAKE IN REPORT)

The City Solicitor introduced the report advising that there had been a good level of engagement from officers and that the purpose of the changes was to update the Constitution Part 2, Section 5 Chief Officers' Delegated Authority. He drew Members' attention to the main changes explaining that they are designed to accurately reflect the scheme of delegation following directorate restructures and also includes a new Shareholder Committee Protocol. Details of the proposed changes are shown in the appendices.

The Chair thanked the City Solicitor for the report.

RESOLVED that the Committee recommended to Council the proposed amendments to Part 2 Section 5 Chief Officers' Delegated Authority for adoption into the Council's constitution.

15. Proposed revision to Standing Order 32 - Referral of Motions to other bodies of the Council (AI 15)

(TAKE IN REPORT)

The City Solicitor introduced the report advising that this would remove the option of referring Notices of Motion to other Council bodies for subsequently reporting back to Council. Effectively this would mean that all Notices of Motion would be discussed.

RESOLVED that the Committee recommended to Full Council that all the wording after the first sentence in section d of Standing Order 32 be deleted leaving "Motions included in the agenda must be formally moved and seconded."

16. Data Security Breaches (AI 16)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report explaining that part of her role included being the Senior Information Risk Owner (SIRO). A regular report was brought to this Committee to advise of any ongoing breaches and to notify members of any new incidents. A summary of incidents is shown in Appendix A. For future reports, it was intended to change the format of the Appendix to show additional information for greater transparency. For example it was likely that the incidents would be recorded by directorate so that it would be clear if more incidents were reported in some directorates than others. This would help identify whether there were any underlying issues that needed intervention.

During discussion

- Members commented that the appendix showed that very few incidents were reported to the Information Commissioner's Office (ICO) and asked for more details on the process leading up to a decision on whether or not to report. The Chief Internal Auditor advised that the Information Governance team first assessed whether or not a breach had occurred by reference to various criteria. If in doubt, they would refer the incident to her for her decision on whether or not to report. Section 3 gave details of the Corporate Information Governance Panel meetings.
- It was confirmed that the ICO was content with how the City Council was operating. In relation to reported incidents, the ICO would request additional information if they needed it. The ICO was more concerned with being satisfied that a sound framework was in place to deal with any incidents.
- It was agreed that there was currently no comparison data year on year relating to data breaches and that this would be useful in future so that an assessment could be made as to whether things were improving or worsening. The Chief Internal Auditor would consider how this data could be provided.

RESOLVED that the Committee noted the breaches (by reference to Appendix A) that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).

17. Whistleblowing Report (AI 17)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report explaining that Appendix A updated the Committee on the nature and handling of whistleblowing concerns for the period from January to December 2019. Appendix B showed minor amendments to the wording of the Policy to reflect personnel changes, for approval by the Committee.

There had been three investigations in 2019 as shown in Appendix A.

During discussion

- In response to a query about whether a whistleblower could be confident that their anonymity would be preserved, the Chief Internal Auditor said that historically PCC had a reasonably good track record in this regard. However if the incident became a police matter, anonymity could not then be guaranteed. If it became necessary to divulge the person's name, they would be told before disclosure was made and would be given as much support as possible.

RESOLVED that the Committee

- (1) Noted this report and the attached Appendix A and considered whether any further action is required**
- (2) Approved the changes to the whistleblowing policy (Appendix B) which has been amended following the departure of the previous City Solicitor and the Director of HR Legal and Performance.**

18. Exclusion of Press and Public (AI 18)

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

The Chair advised that proceedings would be kept open until such time as there was any discussion relating to the exempt appendices included in the reports on the following items on the agenda and would move into exempt session at that point.

19. Audit Performance Status Report to 29 January 2020 (AI 19)

The Chief Internal Auditor introduced the report which updated the Committee on the Internal Audit Performance for 2019/20 to 29 January 2020 against the Annual Audit Plan, highlighted areas of concern and areas where assurance

can be given on the internal control framework. In addition the 2020/21 Annual Audit Plan was attached as Appendix C for committee approval.

Areas of concern are set out in section 5 of the Internal Audit Progress report attached as Appendix A.

Once the open part of the papers for this and the following item had been discussed, the Chair moved the meeting into exempt session. A brief explanation of the contents of the exempt appendix was given in exempt session. A further more detailed update would be provided at a future meeting.

The Chair thanked Internal Audit for their interesting and detailed report.

RESOLVED that the Committee

- (1) Noted the Audit Performance for 2019/20 to 29 January 2020**
- (2) Noted the highlighted areas of concern in relation to audits completed from the 2019/20 Audit Plan, including follow up work performed**
- (3) Endorsed the Audit Plan for 2020/21**

20. Procurement Management (information only) (AI 20)

(TAKE IN REPORT)

Greg Povey introduced the report which provided evidence to allow the Committee to evaluate the extent to which Portsmouth City Council is achieving value for money in its contracts for goods, services and works.

Section 1 provides details of compliance with Contract Procedure Rules. The target set by the Committee of greater than 95% conformance with contract procedure rules has been exceeded.

Section 2 shows waivers awarded this quarter.

Section 3 provides a breakdown by directorate of the actual spend during quarter 3 2019/20 on contracts which have waivers associated with them.

Section 4 shows spend by contract size.

Section 5 shows the Council's top ten suppliers.

Section 6 shows suppliers paid over £100,000 in Q3 by directorate.

Section 7 shows supplier performance.

Section 8 shows supplier performance monitoring.

During discussion

- Appendix 2 was referred to which showed that the reason for 4 waivers was reported as being "insufficient time." Members asked how it was determined that that was the case. Mr Povey explained that generally these situations tended to arise where there was a need to react to unforeseen circumstances - such as a directive from central government. In the case of the Berth 2 Boarding Bridge and Satellite reception concept engineering, a very tight timescale was necessary to meet technical requirements and customer demand. Detailed file notes were kept.

During exempt session members were given the opportunity to ask questions on the exempt appendices.

The Chair thanked Greg Povey, for his contributions to this Committee over several years and wished him every success in his new role in West Sussex.

The committee noted the information only report.

At the close of the meeting, the Chair noted that Councillors John Ferrett and Neill Young would not be standing for re-election at the May 2020 Local Elections. He expressed his thanks to them both for their valuable contributions to the Committee and wished them well for the future.

The meeting concluded at 5.45 pm.

Councillor Leo Madden
Chair

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GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 25 September 2020 at 2.00 pm at the Virtual Remote Meeting - Remote

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

Present

Councillor Leo Madden (in the chair for agenda items 1-6)

Councillor Simon Bosher (Vice-Chair - in the chair for agenda items 7-10)

Councillor John Ferrett

Councillor Judith Smyth

Officers

Julian Pike, Deputy Director of Finance and S151 officer

Michael Lloyd, Directorate Finance Manager

Charlotte Smith, Assistant Director Corporate Services

John Thomas, Complaints Manager Adult Services

Karen Fitzgerald, Corporate Complaints Officer

Peter Baulf, City Solicitor and Monitoring Officer

Elizabeth Goodwin, Chief Internal Auditor

Richard Lock, Assistant Procurement Manager

External Auditor

David White, Manager, Assurance - Government and Public Sector, Ernst & Young

31. Apologies for Absence (AI 1)

The Chair, Councillor Leo Madden, welcomed everyone to the meeting and explained that it was being held virtually because of restrictions imposed following the outbreak of Covid 19.

He agreed to vary the order of the agenda to hear item 6 first. (For ease of reference the item will remain in its original place in the minutes.)

Apologies for absence were received on behalf of Councillor Young.

32. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

33. Minutes of the meetings held on 3 March and 24 July 2020 (AI 3)

The minutes of the meeting held on 3 March 2020 could not be signed off as only one Member was present at this meeting who had also been present at the March meeting.

RESOLVED

(1) that approval of the draft minutes from the meeting held on 3 March 2020 be deferred to the next scheduled meeting of the Committee.

(2) that the minutes of the meeting held on 24 July 2020 be approved and signed by the Chair as a correct record.

34. Treasury Management Outturn Report for 2019/20 (AI 4) (TAKE IN REPORT)

Julian Pike introduced the report which informs members and the wider community of the Council's treasury management activities in 2019/20 and of the Council's treasury management position as at 31 March 2020.

The report outlines borrowing activity and the adverse effect Covid 19 had on the corporate bond market, and also explains that the market had recovered by the end of the first quarter of 2020.

During discussion

- Reference was made to the paragraph in Appendix A about it being clear that the Treasury intends to put a stop to local authorities borrowing money from the Public Works Lending Board (PWLB) to purchase commercial property if the aim is solely to generate an income stream. It was confirmed that PCC had borrowed from the PWLB to fund the commercial property portfolio and for a whole range of non- commercial council services. The government had not yet defined what is meant by "commercial activity."
- In response to a query about whether there would be likely to be any penalty if money is borrowed from PWLB for this purpose, the committee was advised that the government was consulting on this matter and had not yet reached a decision. Central government has said that if future commercial activity is included in the capital programme then local authorities would not be able to access PWLB funds in that financial year. This would not be too much of a problem if it related to buying a new property, but would be more of a problem if for example a roof had to be replaced. The Council could borrow elsewhere though such as through the private market and the municipal bonds agency.
- The reports before the committee today are primarily about treasury management and how the council borrows and invests surplus cash. A report on the commercial property portfolio itself is included in the Council's annual capital strategy report.
- In response to a query about whether the council would have to redeem mortgages and find other lenders if the government decides not to allow further PWLB borrowing, it was confirmed that the government has already said that it will not penalise authorities for existing commercial activity - but change will be required if an authority wishes to repair or replace a property.

- Members agreed that there is a need for visibility about the property investment portfolio as things have changed dramatically over the last 18 months and asked that a report be brought to this committee in 6 months' time. The property service would need to supply that report.
- With regard to VESL mentioned on page 33, it was confirmed that £3.4m was spent over two financial years. External audit would look at the situation only in regard to their opinion on the council's accounts and value for money.

The Chair thanked Julian Pike and Michael Lloyd for the report,

RESOLVED that the actual prudential and treasury management indicators based on the unaudited accounts, as shown in Appendix B, be noted (an explanation of the prudential and treasury management indicators is contained in Appendix C).

35. Treasury Management Monitoring Report for Quarter 1 of 2020/21 (AI 5)
(TAKE IN REPORT information only)

Michael Lloyd introduced the report which informs members and the wider community of the Council's Treasury Management position, ie. its borrowing and cash investments at 30 June 2020 and of the risks attached to that position.

Whilst the Council has a portfolio of investment properties and some equity shares which were acquired through the capital programme; these do not in themselves form part of the treasury management function.

(At this point, Councillor Madden had to leave the meeting and Councillor Boshier took over as Chair.)

There were no questions.

RESOLVED that

- (1) It be noted that the Council's Treasury Management activities have remained within the Treasury Management Policy 2020/21 in the period up to 30 June 2020.**
- (2) The actual Treasury Management indicators as at 30 June 2020 set out in Appendix A be noted.**

36. Corporate Complaints (AI 6)

(TAKE IN REPORT information only)

The Chair agreed to vary the order of the agenda but the item has been kept in its original place in the minutes for ease of reference.

Charlotte Smith, Assistant Director, Corporate Services, Karen Fitzgerald, Corporate Complaints Manager and John Thomas, Complaints Manager Adult Services attended for this item. Charlotte Smith introduced the report which brings to the attention of the Committee the Annual Review of Complaints by the Local Government and Social Care Ombudsman (LGSCO) dated July 2020, regarding complaints it has considered against Portsmouth City Council for the year 2019/20.

Overall there had been a reduction in corporate complaints. Although it is not possible to say definitely why that has happened, much work has been done on addressing customer issues at the first point of contact, so this may have helped. In particular a concerted effort has been made on customer services by Housing, Neighbourhood and Building Services and the number of complaints in that area has decreased significantly.

Adherence to timescales improved in stage 1 and 2 complaints, but worsened for stage 3 complaints - perhaps because stage 3 complaints are usually more complex and time-consuming to resolve. However the time taken currently to resolve stage 3 complaints is not acceptable and efforts are being made to identify issues and improve.

The number of complaints referred to the Ombudsman has reduced from 45 to 35 and the number of upheld complaints has also dropped. The City Council compares favourably with other similar authorities as shown in the table in the report at section 6.

The upheld complaints have been detailed in the report with the links to the complete details on the Local Government Ombudsman's website. The upheld complaints are not concentrated in one area.

Overall the report shows a positive move forward.

The Chair said that complaints are welcomed as they help the authority to improve and this is also the view of the Ombudsman as mentioned in 5.2 of the report.

In response to questions

- It was noted that the two tables on page 56 in the report are not directly comparable because the directorates have changed. Reassurance was given that complaints have decreased in every area and that next year the tables will compare like with like.
- With regard to whether there was any external assessment of our procedures and systems, members were advised that PCC's corporate complaints process was validated by the Ombudsman in 2018. In addition it is more robust than in many other authorities as unusually PCC has a 3 stage process whereas most authorities only have 2 stages. PCC has been proactive in making reasonable adjustments as a result of one complaint.
- It was confirmed that although there are no plans for a formal review into the length of time complaints take to resolve, a review of all stage 3 complaints that have not met the timescales will be undertaken in order to understand the issues involved so they can be addressed.
- It was confirmed that councillors who have queries about any complaint should contact Charlotte Smith or if it is a social care issue, either John Thomas or Natalie Beckett (Complaints Manager job share). The Chief Internal auditor, Elizabeth Goodwin added that the complaints process is also subject to internal audit so if there are any persistent complaints, internal auditors can also be contacted.

The Chair thanked officers for the report which was NOTED.

37. Audit Performance Status report to 7 September (AI 7)

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor, introduced the report which updates the Governance and Audit and Standards Committee on the Internal Audit Performance for 2020/21 to 7 September 2020 against the Annual Audit Plan, highlights areas of concern and areas where assurance can be given on the internal control framework.

The Chief Internal Auditor explained that since the last report internal audit has had to factor in a number of additional movements within the original proposed workload for 2021 - for example where there have been shifts in priority and where levels of grant work have been significantly high. Page 73 onwards shows that the plan is on target. There are 109 reviews broken down into full audits, follow up audits and second follow up audits. Page 74 details ongoing internal audit involvement. There has been an increased level of advice and an increase in the number of special investigations. A report will be presented to this committee at a later date specifically about the additional work that has had to be carried out (summarised on page 75) Some audits have had to be removed owing to depleted resources where staff have been redeployed. Page 78 onwards details areas where reviews have been undertaken. There are no areas of significant concern.

Any changes will be included in the next report.

In response to questions

- It was confirmed that to manage the risk of Covid 19, when performing audits, a risk assessment is carried out that covers how the evidence will be collected. Independence has to be assured and a balance must be achieved in each case.
- It was confirmed that all audit activities where there is no direct impact on the audit client or the auditee have continued. Auditors try to do as much work as possible behind the scenes.
- It was confirmed that during the Covid 19 pandemic some internal audit staff had been redeployed for example to Revenues and Benefits in relation to business grant assessments and also to customer services and care home cleaning. Attention has been given concerning where staff are redeployed to preserve independence. Redeployment has resulted in a slightly reduced plan and the situation is being regularly reviewed as similar measures may have to be taken again.
- It was confirmed that a report will come to this committee that is intended to cover Covid 19 related matters such as emergency arrangements around some of the financial decisions made at the start of the pandemic. It will also include activity on Covid 19 assurance reporting including procurement activity not related to grant verification (eg distribution of laptops) as processes need to be tested and there are likely to be lessons to be learned. The report will also look at financial rules and procurement waivers. The Chief Internal Auditor also advised that for example when they look at payment cards, audits will be separated out between pre Covid and Covid onwards. The report will also include work that has been required in relation to the grants and will also cover discretionary grants, income loss compensation claims and will include any other concerns that arise.

The Chief Internal auditor said that assurances around any arrangements made are necessary and will form part of the report to this committee.

The Committee noted that page 81 of the report shows that Brambles Infant School has achieved a green rating all the way through their audit which is a very creditable achievement.

The Chair thanked the Chief Internal Auditor for her report.

RESOLVED that Members noted

- (1) the Audit Performance for 2020/21 to 7 September 2020.**
- (2) the highlighted areas of concern in relation to audits completed from the 2020/21 Audit Plan, including follow up work performed.**

38. Political Balance Rules (AI 8)

(TAKE IN REPORT)

Peter Baulf, City Solicitor, introduced the report advising that this is brought to the Committee regularly in the circumstances outlined in the report to ensure a wider range of membership. The Committee is asked to consider whether it wishes to disapply the political balance rules in respect of its Sub-Committees and the Initial Filtering Panels which consider complaints against Members

RESOLVED unanimously that the political balance rules are disapplied in respect of Governance and Audit and Standards Sub-Committees which are considering complaints against Members and also the same arrangement should apply in respect of Initial Filtering Panel membership.

39. Exclusion of Press and Public (AI 9)

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

The Chair advised that proceedings would be kept open until such time as there was any discussion relating to the exempt appendices included in the report on the following item on the agenda and would move into exempt session at that point.

40. Procurement Management (information only) (AI 10)

(TAKE IN REPORT for information only)

Richard Lock, Acting Procurement Manager, introduced the report which provides evidence to allow the committee to evaluate the extent that Portsmouth City Council is producing contracts for goods, works and services in a legally compliant value for money basis.

The last report showed the position immediately after Covid 19 and this report shows the following quarter reflecting the first stages of recovery. Compliance has increased from 64% to 80% largely because resources have been redirected. Once sense checking has been applied to the data, the percentage is 97%. Information was given to the Committee concerning the spend by directorates and measures being taken where any issues have been identified.

The Committee congratulated Finance Services and Children's Services for achieving 99% conformance with the transparency code.

Mr Lock explained he had split the waivers into 3 sections as outlined in the report which the committee found helpful.

During discussion

- Members asked for more detail on the waivers in response to the Covid 19 emergency supplies and services. Mr Lock said that PPE is still a large spend but not as much as previously as PCC had built up supplies. Also provided that central government progresses the PPE portal then PCC can just direct providers to that portal. Also food is still in that area but less so now as supply lines had improved. The IBIS contract has also had to be extended.
- Members thanked Mr. Lock for the additional exempt information that he had supplied since the last meeting which was very helpful and asked that he alerted them to anything which he considered should be brought to members' attention. Mr. Lock confirmed that his analysis had been given in the report and he would continue to provide additional detail. The report summary would draw members' attention to any issues. He would also provide more detail on the waivers going forward.
- Members said the KPI performance table was very useful. Mr. Lock said he had concerns that KPIs were still not being completed by services. Consequently the team are focusing on getting contracts on the system and will then concentrate on the KPI performance being completed by services. He advised that the team will review how the KPIs are being asked for and whether they are relevant and proportionate to risk and value. He hopes this will result in improvements.
- Members hoped KPIs would move in the direction of relating to outcomes and value for money and Mr Lock said this is beginning to happen.
- Members noted that the table in the report showed a number of contracts where KPIs are "never scored." Mr Lock said that this is likely to be because contract managers have not updated the system.
- In response to a query about how you would judge the contract if no KPIs had been completed and you were considering renewing it, Mr. Lock said that an extension form would have to be completed and signed off by Legal for any contract over £100k and this acted as a check. Usually KPIs had been completed but just not entered on the system.

- Members said they were confident that the area of KPIs not being scored or having expired was being looked into. This has been an ongoing issue for some time and should be looked at as a priority. Mr. Lock said there had been some resource issues in that some contract managers had left. However, a KPI specialist is being recruited which will assist in overhauling the system.

The Chair thanked Mr Lock for his report and presentation, both of which were very good.

The report was NOTED.

The meeting concluded at 3.40 pm.

Councillor Leo Madden
Chair

Portsmouth City Council Audit results report

Year ended 31 March 2020

November 2020

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Agenda Item 4

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the logo.

Building a better
working world

12 November 2020



Dear Governance and Audit and Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Governance and Audit and Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Portsmouth City Council for 2019/20. We will issue our final report following the Governance and Audit and Standards Committee meeting scheduled for 20 November 2020, and when all outstanding work has been completed.

Our audit of Portsmouth City Council for the year ended 31 March 2020 is in progress at the time of writing this report. We will provide an update on the status of the audit at the 20 November meeting.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We also expect to have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Governance and Audit and Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Governance and Audit and Standards Committee meeting on 20 November 2020.

Yours faithfully

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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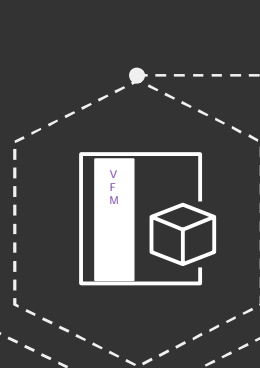
03 Audit Report



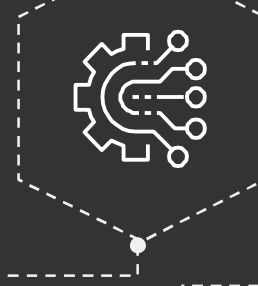
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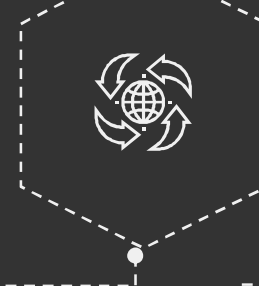
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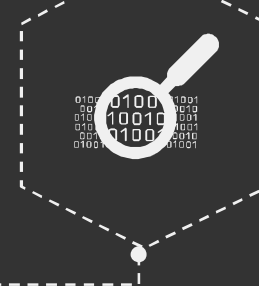
06 Other reporting issues



07 Assessment of Control Environment



08 Data Analytics



09 Independence



10 Appendices



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01

Executive Summary



Executive Summary

Scope update

In our audit planning report presented at the 3 March 2020 Governance and Audit and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

We provided an update to our audit planning report at the 24 July 2020 meeting of the Governance and Audit and Standards Committee. This highlighted the following changes to our risk assessment:

- Valuation of Property Plant and Equipment and Investment Property - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Since late March 2020 in the UK, Covid-19 had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations. Since our update was issued, we have also judged it necessary to associate this risk with property, plant and equipment valued on the basis of market information (existing use value).
- Disclosures on Going Concern – Financial plans for 2020/21 and the medium term will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance.
- Adoption of IFRS16 – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes to the scope of our audit as a result of Covid-19

- There have been no changes to the overall scope of our audit as a result of Covid-19.
- Changes in materiality: We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 1.8% of gross expenditure on provision of services, we have updated our overall materiality assessment to £11.08m (audit planning report – £10.56m). This results in updated performance materiality, at 75% of overall materiality, of £8.309m, and an updated threshold for reporting misstatements of £0.554m.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.



Executive Summary

Scope update

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform.

The fee impact of the changes to our audit will be discussed with management and reported to the Governance and Audit and Standards Committee as soon as possible.

Executive Summary

Status of the audit (continued)

Our audit of Portsmouth City Council for the year ended 31 March 2020 is in progress at the time of writing this report. We will provide an update on the status of the audit at the 20 November meeting. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Testing of property, plant and equipment and investment property – principally valuations and additions
- Testing of expenditure and disclosures
- Residual work on pensions and creditors
- Value for money risk-based work
- Review of the Authority's going concern assessment, and related internal consultation procedures regarding our auditors' report (audit opinion)
- General audit procedures

The following are also outstanding or are to be completed as part of the conclusion of the audit:

- completion of our audit conclusion procedures
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

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

Once the internal consultation regarding our audit opinion is complete, we will confirm any matters which the opinion will need to emphasise with regard to going concern or PPE/Investment Property valuations.

Executive Summary

Audit differences

There are no unadjusted audit differences, or adjusted differences above our performance materiality level, arising from work completed to date.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Governance and Audit and Standards Committee at the meeting on 20 November 2020 if we identify any issues by the time of the meeting.

Areas of audit focus

Our audit planning report and subsequent update identified key areas of focus for our audit of Portsmouth City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report. The areas of focus were as shown below. Where work is ongoing at the time of writing this report, a verbal update will be provided at the Governance and Audit and Standards Committee meeting on 20 November. The conclusions shown below remain subject to final review.

- Risk of fraud in revenue and expenditure recognition: inappropriate capitalisation of revenue expenditure - no issues have been identified from our work to address this risk at the time of writing this report.
- Misstatements due to fraud or error - no issues have been identified from our work to address this risk at the time of writing this report.
- Valuation of Lakeside North Harbour - our work to address this risk, with input from our internal valuation specialists, is ongoing
- Valuation of Land and Buildings and Investment Property - our work to address these risks, with input from our internal valuation specialists, is ongoing
- Going concern - our work in this area is ongoing
- PFI accounting - no issues have been identified from our work to address this risk
- Pension Liability Valuation - our work to address this risk is well progressed. One matter arising is being discussed with management
- Minimum Revenue Provision - no issues have been identified from our work to address this risk
- Restatement of the Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis, and related notes - no issues have been identified from our work to address this risk
- Group Accounts Assessment - no issues have been identified from our work to address this risk



Executive Summary

Areas of audit focus (continued)

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Governance and Audit and Standards Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no matters we wish to report.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We identified one significant risk to our value for money conclusion, in relation to informed decision making, and specifically to the purchase of Lakeside North Harbour.

Our work to address this risk remains ongoing at the time of writing this report. We do not expect to have any matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



Executive Summary

Other reporting issues

We review the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We do not expect to have any matters to report as a result of this work.

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee following completion of this work.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence. We have no independence issues to report.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

The value of Property, Plant & Equipment (PPE) additions in 2019/20 was £211m (£69m excluding Lakeside purchase), and the value of Investment Property (IP) additions was £11m.

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What judgements are we focused on?

Our work has focussed on any judgements exercised in determining whether expenditure is capital in nature, and therefore appropriate to be capitalised rather than charged to the Comprehensive Income and Expenditure Statement.

What did we do?

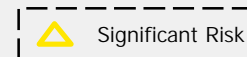
Our approach focused on:

- We selected a sample of additions, using lowered testing thresholds, to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- When performing journals testing, we challenged entries that could be indicative of inappropriate capitalisation, such any significant journals transferring expenditure from non-capital codes to PPE/IP additions or from revenue to capital codes on the general ledger at the end of the year.

What are our conclusions?

We have a small number of residual queries regarding our testing of additions which are ongoing at this time. We will provide an update to the Governance and Audit and Standards Committee on 20 November 2020.

Our work on journals remains subject to final review but we expect to conclude that this testing has not identified any indications of inappropriate capitalisation of revenue expenditure.



Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of expenditure as a potential area of manipulation, which is recorded as a separately identified significant risk on the previous page of this report.

Our work on estimates focussed on PPE (including Lakeside) and Investment Property valuation which we have identified as areas of significant risk, and IAS19 pension estimates, minimum revenue provision and PFI valuation, which we have identified as areas of higher inherent risk. Our findings on these areas are set out on the subsequent pages in this section of our report.

What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

What are our conclusions?

Our work in relation to this risk is ongoing at the time of writing this report. To date:

- We have not identified any evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We have not identified any other transactions which appeared unusual or outside the Authority's normal course of business

We will provide an update at the meeting of the Governance and Audit and Standards Committee on 20 November 2020.



Significant risk

Valuation of Lakeside North Harbour asset

What is the risk?

During the 2019/20 financial year, Portsmouth City Council purchased the Lakeside North Harbour office complex located in Portsmouth as part of their regeneration policy for the area.

The business campus sits in a 120-acre site, located to the north of Portsmouth City Centre, and comprises 594,000 sq ft of offices, 3,000 parking spaces, a day nursery and 8.7 acres of development land.

This is a highly significant and material property, plant and equipment asset, with a value at 31/03/20 of £138m. The valuation of the asset is carried out in accordance with the methodologies and bases for estimation set out in relevant professional standards. However, a number of key inputs into the valuation are judgmental and subjective.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet in respect of this asset.

What did we do?

We:

- Commissioned an EY specialist (EY Real Estates) to review the valuation and specifically to:
 - consider the competence, capability and objectivity of the Authority's valuers;
 - consider the scope of valuers' work; and
 - challenge the assumptions and methodology used by the valuers by reference to external evidence.

We also:

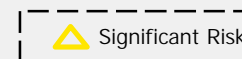
- Tested the specific journals for the valuation to confirm that they have been accurately processed in the financial statements.

What are our conclusions?

The work of our internal specialists with regard to the valuation of Lakeside North Harbour remains ongoing at the time of writing this report. Information and explanations to support the valuation have been requested and obtained, and our specialist's review of these is well progressed.

Please see the following page for our additional considerations around asset valuations as a result of Covid-19. These are also relevant to Lakeside, which is valued at existing use value.

We will provide an update at the meeting of the Governance and Audit and Standards Committee on 20 November 2020.





Significant risk

Valuation of Land and Buildings (existing use value) and Investment Property

Page 41

What did we do?

- Considered the work performed by the Authority's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuers.
- Tested accounting entries have been correctly processed in the financial statements.
- Ensured that appropriate disclosure has been made in the financial statements concerning the material uncertainty.
- Obtained input from EY Real Estates, our internal specialists on asset valuations for Investment Properties and PPE valued at existing use value, including inputs on market sentiment and how it has been reflected in the valuations.

What is the risk?

The value of Investment Property (IP) and Land and Buildings represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews, depreciation and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end. Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations. Since our update was issued, we have also judged it necessary to associate this risk with property, plant and equipment valued on the basis of market information (existing use value).

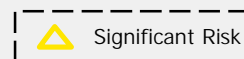
The value of IP in the draft accounts at 31/03/2020 was £188m. The value of PPE valued at existing use value was £348m (of which Lakeside was £138m).

What are our conclusions?

Our work on investment property valuations is in progress at the time of writing this report. We have involved our internal specialists in testing a representative sample of investment property and existing use value land and buildings, with the remainder of the sample being tested by the audit team. Information and explanations to support the valuations have been requested and obtained, and our review of these is well progressed.

The Council's valuers have included the expected material uncertainty wording in their reports, and the Council has disclosed this within the draft financial statements. Once the internal consultation regarding our audit opinion is complete, we will confirm any matters which the opinion will need to emphasise with regard to PPE/Investment Property valuations.

We will provide an update at the Governance and Audit and Standards Committee meeting on 20 November.





Areas of Audit Focus

Other areas of audit focus

Valuation of Land and Buildings (excluding existing use value)

What is the risk?

The value of Property, Plant and Equipment (PPE) represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The net book value of PPE in the draft accounts at 31/03/2020 was £1.44bn. Of this total, £0.75bn is subject to revaluation on bases other than EUV.

What did we do?

We:

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Tested on a sample basis the accuracy of information used by the valuer in performing their valuations and challenged the valuer's key assumptions.
- Considered the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE.
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
- Confirmed that accounting entries have been correctly processed in the financial statements.

What are our conclusions?

Our work on property, plant and equipment valuations is in progress at the time of writing this report. Information and explanations to support the valuations have been requested and obtained, and our review of these is well progressed. This work is being undertaken by the local audit team.

We will provide an update at the Governance and Audit and Standards Committee meeting on 20 November.



Areas of Audit Focus

Other areas of audit focus

Going Concern Disclosure

Page 13

What did we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we sought a documented and detailed consideration to support management's assertion regarding the use of the going concern basis of preparation. Our audit procedures to review this included consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting; and
- Sensitivities and stress testing.

Due to the impact of Covid-19, we also consulted internally with our risk department over the level of disclosure.

What is the risk?

Covid-19 has created a number of financial pressures throughout Local Government, increasing service demand and expenditure. The Authority has incurred additional expenditure in a number of areas of its operations and has experienced income losses in parking, commercial and leisure services. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

What are our conclusions?

Our work on going concern, and the related internal consultation process, is ongoing at the time of writing this report. We will provide an update at the Governance and Audit and Standards Committee meeting on 20 November.

The conclusion of our work may indicate an emphasis of matter is required for our audit opinion. This is not a qualification, but draws attention to the reader of the accounts such matters that are important for their understanding of the Statement of Accounts, that are properly disclosed. We cannot conclude whether this is required until the work is complete.



Areas of Audit Focus

Other areas of audit focus

PFI accounting

What is the risk?

The Authority has four PFI arrangements, two of which are material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal specialist in 2016/17. We will review the accounting entries and disclosures in relation to PFI in detail in 2019/20, with a focus on any significant changes since the specialist's review.

The total finance lease liability for PFIs was £62m at 31/03/2020, and the net book value of PFI assets was £140m.

What did we do?

We:

- Reviewed assurances brought forward from prior years regarding the appropriateness of the PFI financial models.
- Reviewed the PFI financial models for any significant changes.
- Ensured the PFI accounting models had been updated for any service or other agreed variations and confirmed consistency of current year models with prior year brought forward assurances.
- Agreed outputs of the models to the accounts, and reviewed the completeness and accuracy of disclosures.

What are our conclusions?

Our work on PFIs is complete subject to final review.

We have assessed brought forward assurances, reviewed the PFI models for significant changes, and ensured appropriateness of any updates and consistency of current year models with the prior year. We have also agreed the outputs of the models to the accounts.

We expect to conclude that no issues have been identified with PFI accounting through the work performed.



Areas of Audit Focus

Other areas of audit focus

Pension Liability Valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The net pension liability in the draft accounts at 31 March 2020 was £427m.

Page 45

What did we do?

We:

- Liaised with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Portsmouth City Council.
- Assessed the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team. This has included reviewing the actuary's treatment of specific developments in relation to the McCloud and Goodwin cases, to confirm these had been appropriately considered, and to ensure the resulting treatment within the overall liability estimate was materially correct.
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

Our programme of work on the pension liability valuation is well progressed.

One matter arising from the assurances provided by the auditor of Hampshire Pension Fund is currently being discussed with management. We will provide an update at the Governance and Audit and Standards Committee meeting on 20 November.

We have no other findings to report from our work completed to date.



Areas of Audit Focus

Other areas of audit focus

Minimum Revenue Provision (MRP)

What is the risk?

Local authorities are normally required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. This provision is known as MRP. MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement. The calculation of MRP is inherently complex.

What did we do?

We:

- Used the completed outputs of the review undertaken in 2018/19 by our internal specialist of the Authority's MRP calculations to inform our assessment of the material accuracy of the Authority's MRP estimate and release of its historic overprovision in 2019/20.
- Considered any changes in the Authority's approach to MRP since the review was completed.
- Considered the impact of changes in the Authority's asset base on the MRP charge for the year.

What are our conclusions?

Our work on MRP is complete subject to final review.

No changes to the Authority's approach to calculating MRP in 2019/20 were identified. We used the completed outputs of the review undertaken by our specialist, and understood the impact of changes in the asset base on the current year MRP calculation.

We expect to conclude that no issues have been identified with the minimum revenue provision through the work performed.



Areas of Audit Focus

Other areas of audit focus

Restatement of Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes

What is the risk?

Under CIPFA's "Telling the Story" agenda, the Authority is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP.

The Authority has changed its internal reporting structure in 2019/20, which will mean the prior period comparators in the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new structure.

Page 47

What did we do?

We:

- Agreed the restated comparative figures back to the Authority's prior year financial statements and supporting working papers
- Reviewed the analysis of how these figures are derived from the Authority's ledger system

What are our conclusions?

We are satisfied that the Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis, and related disclosure notes, have been restated appropriately following the change to internal reporting structures. We have no matters to report as a result of the work performed.



Areas of Audit Focus

Other areas of audit focus

Group Accounts Assessment

What is the risk?

IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Authority has interests in other entities, it needs to undertake qualitative and quantitative assessments to inform its decisions as to whether group accounts are required. This is an area of potential complexity and judgement requiring regular review.

What did we do?

- Page 48
- Asked the Authority to update its qualitative and quantitative group accounts assessment for all relevant entities and critically evaluated this as early in the audit cycle as possible;
 - Undertook our own assessment and compared this with the Authority's review, to identify any areas where additional work may have been required to form a conclusion on whether group accounts are required under the accounting standards.

What are our conclusions?

We have reviewed the Authority's updated group accounts assessment, and undertaken our own review to assess whether the Authority has any arrangements which would require the production of group accounts.

We are satisfied that group accounts are not required for 2019/20. This is an area which will need to be kept under review going forward.



03 Audit Report



Audit Report

Draft audit report

As set out on page 17, we are unable to conclude on the final form of our audit report until all procedures are completed, especially those relating to Going Concern disclosures. We may include an emphasis of matter relating to the Council's Going Concern disclosures or other impacts of Covid-19 in addition to the form and content set out below. We have shown an example emphasis of matter paragraph for reference – but this may not be needed in the actual audit report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PORTSMOUTH CITY COUNCIL

Opinion

We have audited the financial statements of Portsmouth City Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, the related notes 1 to 42 and Expenditure and Funding Analysis, the Collection Fund and the related notes 1 to 3, the Housing Revenue Account, Movement on the HRA Statement and the related notes 1-12.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Portsmouth City Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[Emphasis of matter – Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 4 Assumptions made about the future and other sources of estimation uncertainty of the financial statements, which describes the valuation uncertainty the Authority is facing as a result of COVID-19 in relation to property valuations. Our opinion is not modified in respect of this matter.]

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Resources (Section 151 Officer)'s use of



Audit Report

Draft audit report

Our draft audit report, continued

the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Director of Finance and Resources (Section 151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20 set out on pages 4 to 35, other than the financial statements and our auditor's report thereon. The Director of Finance and Resources (Section 151 Officer) is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Portsmouth City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Draft audit report

Our draft audit report, continued

Responsibility of the Director of Finance and Resources (Section 151 Officer)

As explained more fully in the Statement of Responsibilities set out on page 39, the Director of Finance and Resources (Section 151 Officer) is responsible for the preparation of the Financial Statements, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Resources (Section 151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether Portsmouth City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Portsmouth City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.



Audit Report

Draft audit report

Our draft audit report, continued

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Portsmouth City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Portsmouth City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Portsmouth City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton*



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted and unadjusted differences

A small number of disclosure amendments have been made to the financial statements as a result of our work to date. We have not identified any adjusted differences greater than £8.309m which would require individual reporting here.

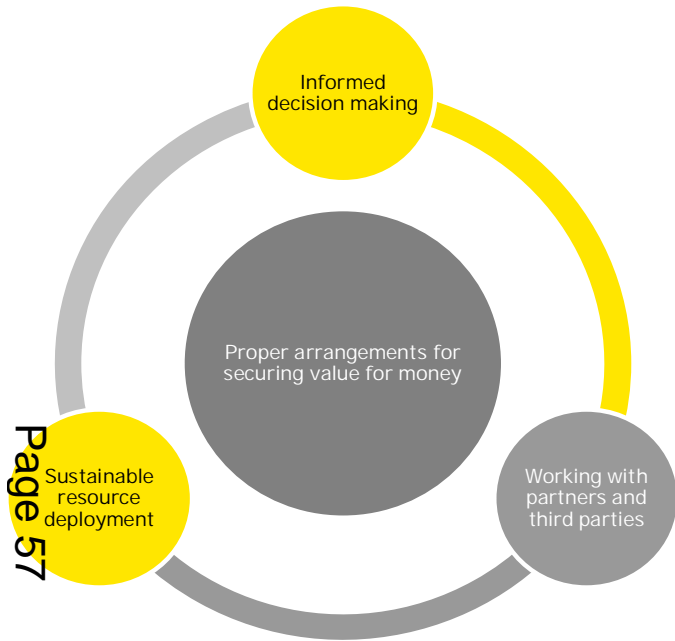
No unadjusted differences have been identified to date.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will provide an update at the Governance and Audit and Standards Committee meeting on 20 November 2020.



05

Value for Money Risks



Background

We are required to consider whether the Authority has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities’ response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified one significant risk around these arrangements, in relation to making informed decisions, specifically in relation to the purchase of Lakeside North Harbour. The table below presents our findings in response to the risk in our audit planning report and any other significant weaknesses or issues we want to bring to your attention.

We expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The section below presents the findings of our work in response to the risks area in our audit planning report and audit plan update. No further risks were identified during the course of our audit.

What is the significant value for money risk?

During the 2019/20 financial year, Portsmouth City Council purchased the Lakeside North Harbour office complex located in Portsmouth as part of their regeneration policy for the area.

The business campus sits in a 120-acre site, located to the north of Portsmouth City Centre, and comprises 594,000 sq ft of offices, 3,000 parking spaces, a day nursery and 8.7 acres of development land.

The Lakeside site was purchased for £138m in 2019/20. The purchase was funded through external borrowing, requiring an extension to the Authority's maximum borrowing levels in its Treasury Management policies to facilitate the acquisition. The borrowing will lead to increased Minimum Revenue Provision charges and interest payments in future years.

The financial outcomes relating to the asset are contingent in part on occupancy levels of the on-site premises.

What arrangements did the risk affect?

Informed decision making



Value for Money Risks

What did we do?

We:

- reviewed the robustness of the financial appraisals supporting the purchase of Lakeside, including consideration of the expected financial outcomes from the site and the related impact on the Authority's finances.
- reviewed the process undertaken to evaluate and approve the purchase, including understanding the involvement of officers, members and external experts at key stages.

We note that our VFM conclusion is required to cover the period 1 April 2019 to 31 March 2020. As such, the period covered was not significantly impacted by Covid-19. We have assessed the Authority's arrangements in the period during the year on which the pandemic impacted (late March), and no new risks or need to modify our approach in respect of the risk from our audit planning report have been identified.

What are our findings?

Our value for money conclusion work is in progress at the time of writing this report. We will provide an update at the Governance and Audit and Standards Committee meeting on 20 November.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the 2019/20 Financial Statements with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Our work on the above areas is ongoing. We expect to conclude that financial information in the 2019/20 Financial Statements and published with the financial statements is consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and expect to confirm it is consistent with other information from our audit of the financial statements and that we have no other matters to report.

Whole of Government Accounts

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

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee following completion of this work. The audit certificate will be issued once this work is complete.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Consideration of laws and regulations; and
- Group audits

We have no other matters to report at the time of writing this report. We will provide a further update if required at the meeting of the Governance and Audit and Standards Committee on 20 November 2020.



07

Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

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08 Data Analytics



Use of Data Analytics in the Audit

Data analytics – Income & expenditure testing, payroll testing and journals

Analytics Driven Audit

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Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included selecting samples for general income and expenditure testing, testing payroll costs, and identifying and focusing our journals testing on those entries we deemed to have the highest inherent risk to the audit.

We captured the data through our formal data requests and the data transfer took place on a secured EY website. The transfer methodology is in line with our EY data protection policies, which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtained downloads of all of the Authority's financial ledger transactions posted in the year. We performed completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then reviewed and sorted transactions, allowing us to more effectively identify and test journals that we considered to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also used our analysers in our payroll testing. We obtained all payroll transactions posted in the year from the General Ledger and performed completeness analysis over the data and procedures to understand the data and identify unusual items. We also reconciled the GL amount to the payroll subledger. We then analysed the data against a number of specifically designed procedures.



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09

Independence

Confirmation and analysis of Audit fees

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 23 January 2020.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance and Audit and Standards Committee on 20 November 2020.

Our fees do not include the scale fee review which is currently underway with PSAA to agree whether the scale fees need to be rebased to properly account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. Discussions with PSAA remain ongoing.

As part of our reporting on our independence, we set out below a summary of fees for the year ended 31 March 2020.

We confirm that we have not undertaken non-audit work.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	TBC*	126,817	115,449

*Our 2019/20 final fee remains subject to confirmation. We will assess the level of additional fees which we will propose and discuss these with management as soon as possible. This will be with regard to:

- Additional work performed on property plant and equipment and investment property
- Going concern procedures
- Correspondence received from members of the public

Additional fees for work undertaken on the Lakeside valuation significant risk, CIES/EFA restatement and value for money significant risk are expected to be as originally scoped.

These proposed additional fees will be subject to agreement with the Section 151 Officer and PSAA, and will be reported to the Governance and Audit and Standards Committee once agreed.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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Services provided by Ernst & Young

The previous page includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services provided to the Authority has been on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

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Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report from November 2020:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf



10 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit. The audit approach to all material balance sheet items is shown.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded

Page 73 Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

All material figures in the Balance Sheet have been substantively tested, as set out in our Audit Planning Report of February 2020. This is consistent with our audit approach in the prior year.




Summary of communications

Date	Nature	Summary
03/03/2020	Report	The audit planning report, including confirmation of independence, was presented to the Governance and Audit and Standards Committee.
24/07/2020	Report	The audit planning report update, setting out our updated risk assessment in light of Covid-19, was presented to the Governance and Audit and Standards Committee.
20/11/2020	Report	The audit results report, including confirmation of independence, was presented to the Governance and Audit and Standards Committee.
Regularly throughout the year	Meetings	The partner in charge of the engagement, and audit manager, met with the Director of Finance and Resources, to discuss matters of relevance to the audit, Authority and sector. We increased the occurrence of these meetings following the onset of the Covid-19 pandemic, to ensure frequent communications were maintained.

Appendix C

Required communications with the Governance and Audit and Standards Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Governance and Audit and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report – March 2020	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – March 2020	
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report – November 2020	

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Major Local Audits	<p>For the audits of financial statements of public interest entities/major local audits our written communications to the Governance and Audit and Standards Committee include:</p> <ul style="list-style-type: none"> • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Governance and Audit and Standards Committee • Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant 	<p>Audit Planning Report - March 2020</p> <p>Audit Results Report - November 2020</p>





Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit Results Report – November 2020
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit Results Report – November 2020
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Governance and Audit and Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial 	Audit Results Report – November 2020
Fraud	<ul style="list-style-type: none"> • Enquiries of the Governance and Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Governance and Audit and Standards Committee responsibility. 	Audit Results Report – November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report – November 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report – March 2020</p> <p>Audit Results Report – November 2020</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Governance and Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance and Audit and Standards Committee may be aware of. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Results Report – November 2020
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Governance and Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance and Audit and Standards Committee may be aware of. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report – November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report – November 2020
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor’s report 	Audit Results Report – November 2020
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report – March 2020
		Audit Results Report – November 2020

Management representation letter

Provisional Management Representation Letter

Ernst & Young LLP

Grosvenor House
Grovesnor Square
Southampton
Hampshire
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Portsmouth City Council (“the Council”) for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Portsmouth City Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [\[specify reasons for not correcting misstatement\]](#).

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

Management representation letter

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and the Cabinet held through the year to the most recent meeting on the following date: 20 November 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter (26 July 2019) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

Management representation letter

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Preface, Narrative Report and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and investment property, the IAS19 pension fund liability, and the business rates appeals provision, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the valuation of property, plant and equipment and investment property, IAS19 pension liability, minimum revenue provision and PFI valuation estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

J. Going Concern

1. Note xx to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

Management representation letter

I confirm that this letter has been discussed and agreed by the Authority on 20 November 2020

Name: Chris Ward

Position: Director of Finance and Resources and Section 151 Officer

Name: Councillor Leo Madden



Position: Chairman of the Governance and Audit and Standards Committee

Appendix E

Accounting and regulatory update



Future accounting developments

The following table provides a high level summary of the future accounting developments that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact 
IFRS 16	<ul style="list-style-type: none"> The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. 	<ul style="list-style-type: none"> The Authority should keep its implementation arrangements under review, including the timetable for gathering related information for the year of adoption and prior period comparators.

Regulatory update

Since the date of our last report to the Governance and Audit and Standards Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact 
Code of Audit Practice 2020	<ul style="list-style-type: none"> The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. Further updates will be provided when possible.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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Title of meeting:	Governance and Audit and Standards Committee
Date of meeting:	20 th November 2020
Subject:	Annual Governance Statement
Report by:	Kelly Nash, Corporate Performance Manager
Wards affected:	n/a
Key decision:	No
Full Council decision:	No

1. Purpose of report

- 1.1 The report seeks approval from the Governance and Audit and Standards Committee for the council's Annual Governance Statement (AGS) for 2019/20.

2. Recommendations

- 2.1 The Governance and Audit and Standards Committee is asked to:
- 1) Agree the Annual Governance Statement 2019/20 (Appendix 1)

3. Background

- 3.1 The authority has a duty to produce and publish an Annual Governance Statement (AGS). This sets out how Portsmouth City Council has complied with the Local Code of Governance, and how the authority meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011.
- 3.2 The purpose of the AGS is to set out the systems and processes in place to ensure that Council business is conducted lawfully and in accordance with proper standards. Compliance helps ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It also acknowledges the Council's responsibility to secure continuous improvement in the way in which its functions are exercised by outlining significant governance issues facing the organisation, and setting out how these will be addressed.
- 3.3 It is a key role of the Governance and Audit and Standards committee to monitor governance issues across the authority and ensure they are performance managed. The Governance and Audit and Standards Committee receive regular updates on the development of the Annual Governance Statement. Governance issues are also reviewed regularly by the Corporate Governance Group which is

attended by the Chief Executive, the Monitoring Officer, Director of Finance and Resources, Director of Corporate Services and the Chief Internal Auditor.

- 3.4 The AGS reports against seven core principles of governance set out in the International Framework for Good Governance in the Public Sector. The detail of how the organisation addresses these principles is set out in the Local Code of Governance, which was refreshed and approved by Governance and Audit and Standards Committee in 2019. Every year, a number of sources are analysed, including the Annual Audit Letter, in order to review the council's practices and highlight further governance issues where the authority may be exposed.
- 3.5 For 2019/2020, the Annual Governance Statement also notes that the Covid-19 pandemic response had started and that this response and wider recovery will have significant implications for the governance of the organisation, including changes to process, exceptional use of resources and reduced assurance. It is recognised that some requirements on the authority (such as distributing a large number of business grants at pace without established processes and against a backdrop of pressure from the Government to get money out swiftly) will have created new and unusual risks and exposures. It is highlighted that these issues will be significant for the 2020/21 year, although the full implications are not yet known.
- 3.6 The Annual Governance Statement also includes the annual opinion on the effectiveness of the internal system of control from the Chief Internal Auditor.
- 3.7 The final Annual Governance Statement for 2019/20 is attached at Appendix 1, and has been signed off by the Leader of the Council and the Chief Executive.

4. Reasons for recommendations

- 4.1 The 2019/20 Annual Governance Statement has been prepared according to the proper practice framework - Delivering Good Governance in Local Government issued jointly by SOLACE (Society of Local Authority Chief Executives and Senior Managers) and CIPFA (Chartered Institute of Public Finance and Accountancy) in 2016.

5. Integrated impact assessment

- 5.1 An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

6. Legal implications

- 6.1 Legal considerations have been taken into account in the preparation of this report and where appropriate embodied within it.

7. Director of Finance's comments

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

.....
Signed by: Paddy May, Corporate Strategy Manager

Appendices:

Appendix 1 - Annual Governance Statement 2019/20

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

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

Title of document	Location

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

.....
Signed by:

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Annual Governance Statement 2019-20

www.portsmouth.gov.uk

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What is the annual governance statement?

Legislation¹ requires local authorities to prepare and publish an Annual Governance Statement, in order to report publically on the effectiveness of the Council's governance arrangements. The statement provides an overview of the current governance framework and a summary of the review on the effectiveness of Portsmouth City Council's governance framework for 2019/20 (which coincides with the annual statement of accounts). The statement openly communicates significant governance issues that have been identified during the review and sets out how the authority will secure continuous improvement in these areas during over the coming year.

What do we mean by governance?

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

Scope of responsibility

Portsmouth City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Portsmouth City Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

About the Council

Portsmouth's Council comprises of 42 Councillors who represent 14 wards across the City. It currently operates a minority administration under a Leader and Cabinet structure with Cabinet Members responsible for individual portfolios.

The Council employs around 3,600 members of staff and provides an extensive range of services to residents, businesses and visitors in the City, including: city development and cultural services, regulatory business and standards services, transport and environmental services, housing and property services, children's and adult's social care and safeguarding, education services, revenues and benefits and health and welfare services.

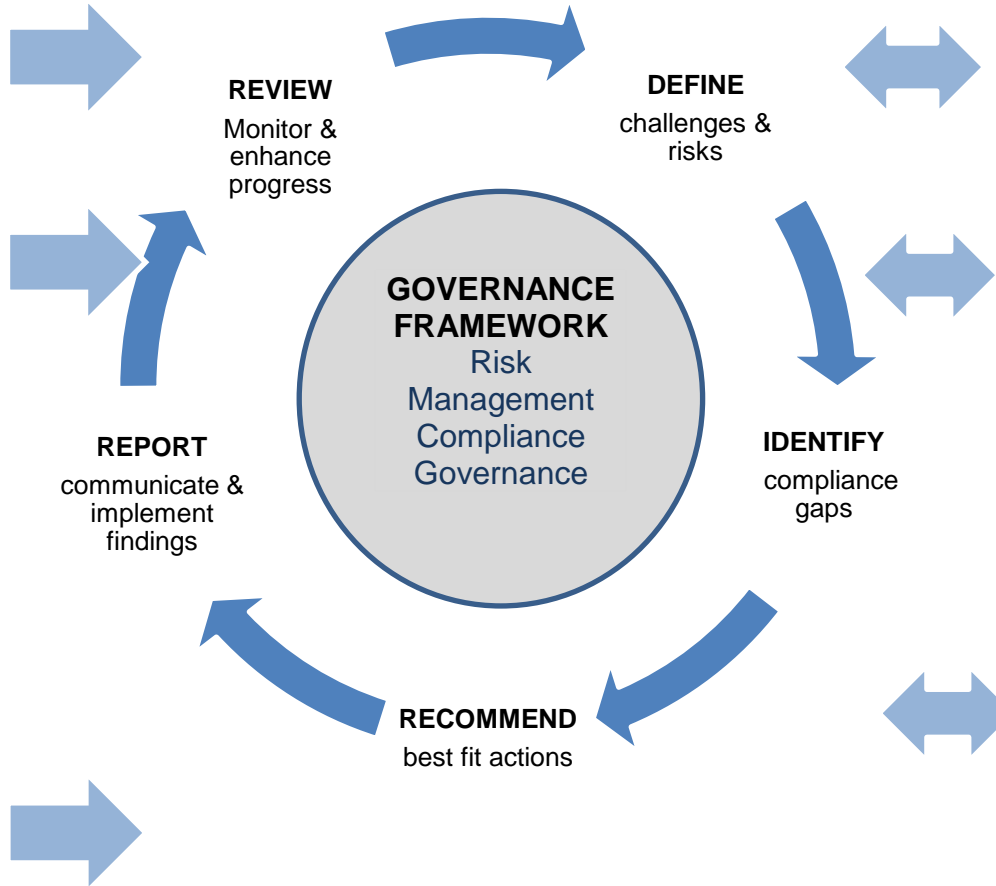
The staff of the council are managed by the **Chief Executive**, David Williams, who is the Head of the Paid Service. The Chief Executive is supported **directors** who have oversight of a number of services, each of which deals with a broad portfolio of the functions of the authority.

¹ Accounts and Audit (England) Regulations 2011, regulation 4(3)

GOVERNANCE PRINCIPLES

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through internal control and strong public financial management
- Implementing good practices in transparency, reporting and audit to deliver effective accountability

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Organisational goals and priorities
Strategic and operational plans
Performance management
Medium term financial strategy

Statutory Officers & Decision Making

The Constitution
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Section 151 Officer

Policies & Procedures

Codes of conduct
Ways of working
Anti-fraud, Bribery and Corruption Policy
Whistleblowing Policy
HR Policies and procedures

People, Knowledge, Finance, Assets

Robust HR practices
Information governance
Performance monitoring and improvement
Financial management and reporting
Ethical & legal practices

Scrutiny and Transparency

Freedom of Information requests
Complaints procedure
Reports considered by legal and finance experts
Equality impact assessments
Corporate risk directory
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Partnership Working

Community engagement statement
'Have your say'
Consultations
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CIPFA/SOLACE Good governance principles and the local code of governance

In 2016 CIPFA/SOLACE issued revised best practice guidance for 'Delivering Good Governance in Local Government'². The framework sets out seven principles that should underpin the governance of each Local Authority. The following sections look at how the Council is held to account for these seven principles.

A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

The Constitution

The constitution³ sets out the how the Council operates; the roles and responsibilities of members, officers and the scrutiny and review functions; how decisions are made; and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Although there is no longer a statutory requirement, Portsmouth City Council has taken the decision to continue with this arrangement internally and is in the process of updating the constitution to ensure it reflects current practice. As well as working together as a single organisation, it is important that members and officers continue improve their working relations with other organisations too, both locally and sub-nationally, to achieve a common purpose of improved efficiency and effectiveness.

The Monitoring Officer

The Monitoring Officer is a statutory function and ensures that the Council, its officers, and its elected members, maintain the highest standards of conduct in all they do. The Monitoring Officer is assisted when required by appointed deputies. The Monitoring Officer ensures that the Council is compliant with laws and regulations, as well as internal policies and procedures, and is also responsible for matters relating to the conduct of Councillors and Officers, and for monitoring and reviewing the operation of the Council's Constitution. In PCC, the monitoring officer is Peter Baulf, the City Solicitor and Head of Legal Services.

Section 151 Officer

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

Codes of conduct

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

² <http://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework>

³ A copy of the constitution can be found at <https://www.portsmouth.gov.uk/ext/the-council/policies-and-strategies/constitution.aspx>

Anti-fraud, bribery and corruption

The Council is committed to protecting any funds and property to which it has been entrusted and expects the highest standards of conduct from Members and Officers regarding the administration of financial affairs. The Council's Anti-Fraud, Bribery and Corruption Policy⁴ (revised in May 2016) conforms to legislative requirements and sets out steps to minimise the risk of fraud, bribery, corruption and dishonesty and procedures for dealing with actual or expected fraud.

Whistleblowing

The Council is committed to achieving the highest possible standards of openness and accountability in all of its practices. The Council's Whistleblowing policy⁵ sets out the options and associated procedures for Council staff to raise concerns about potentially illegal, unethical or immoral practice and summarises expectations around handling the matter. The Policy is kept under review by the Monitoring Officer, and reports (which include concerns raised and their outcomes) are submitted to the Governance and Audit and Standards Committee quarterly.

Governance and Audit and Standards Committee

As its name suggests, the Governance, and Audit and Standards Committee has the responsibility for receiving many reports that deal with issues that are key to good governance. The Committee undertakes the core functions of an Audit Committee identified in CIPFA's practical guidance⁶. The group has an agreed set of terms of reference⁷, which sets out their roles and responsibilities of its members⁸. On an annual basis the Chair of the Committee is invited to undertake a self-assessment, which informs the overall review of effectiveness of the Council's governance arrangements.

B. Ensuring open and comprehensive stakeholder engagement

Engagement and communication

It is recognised that people need information about what decisions are being taken locally, and how public money is being spent in order to hold the council to account for the services they provide. The views of customers are at the heart of the council's service delivery arrangements. Portsmouth City Council has developed a Community Engagement Statement, which reflects the council's ambition to enable and empower communities to shape the places within which they live and work, influence formal decision making and make informed choices around the services they receive. The Community Engagement Statement asserts the following objectives for the council's engagement activity:

- Active citizens and strong communities,
- Clearer links between consultation and decision-making,
- A City that reflects its diversity and improved use of resources and aims to build upon the council's commitment to finding ways to inform,
- Consult and involve local people in all areas of life.

⁵ A copy of the whistleblowing policy can be located at :

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

⁶ A copy of the guidance can be found at: <http://www.cipfa.org/Policy-and-Guidance/Publications/A/Audit-Committees--Practical-Guidance-for-Local-Authorities>

⁷ The Governance and Audit and Standards Committee Terms of Reference can be found at: <http://www.portsmouth.gov.uk/media/SC20120716r5app4.pdf>

⁸ Membership can be found at: <http://democracy.portsmouth.gov.uk/mgCommitteeDetails.aspx?ID=148>

To be effective this process aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. There are a number of ways people can get involved and connect with the council, many of which are listed on the council webpage⁹. Local people have the option to engage in a dialogue through: social media sites (including Facebook and twitter), petition schemes, neighbourhood forums, Healthwatch Portsmouth, council meetings (open to the public), their local Councillor¹⁰.

Consultations

The council keeps a forward plan of planned consultations. Internally, a consultation toolkit has been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness, consultations are proactively promoted.

The council issues a free copy of their Flagship magazine to all households keeping them up to date about what's going on in the City. The authority also issues other publications to specific groups, including "Term Times" for schools and "HouseTalk" for tenants.

Portsmouth City Council regularly engages with its employees to ensure they are kept informed about the council and the city. There are communication channels for "off-line" and online employees and a dedicated communications point of contact for staff. Employees are regularly asked to complete opinion surveys so the council can get a better understanding of what's working and what's not. The results are carefully considered and used to address issues.

Complaints

There is a clear and transparent procedure¹¹ for dealing with complaints. The Council operates a three-stage complaints procedure and promises to acknowledge complaints within 5 working days and respond fully within 10 working days for first-stage complaints, 15 working days for second-stage complaints and 20 working days for third-stage complaints. If complainants remain dissatisfied they have the right to refer the matter to the Local Government Ombudsman.

Partnership working

Partnerships are about the council coming together with right organisations to deliver improved outcomes for local people. The city has excellent partnership working, with other local authorities and with colleagues in health, including the Clinical Commissioning Group (CCG), the police, probation, fire service, university and with business.

For many years, we have had three key theme-based strategic partnerships - the **Health and Wellbeing Board**, **Children's Trust**, and the **Safer Portsmouth Partnership**. These partnerships were reviewed in 2019 and folded into a single Health and Wellbeing Board with a broadened remit and membership, to improve efficiency and ensure that issues are being considered strategically and as they affect people and the city across all dimensions.

This arrangement will also support the increased joining-up of with partnership organisations at the commissioning and delivery levels. This includes multi-agency teams for children and families, and locality teams to deliver Better Care, as well as the development of a partnership for delivering the Healthy Child Programme in the city. A range of mechanisms are used to support these arrangements.

⁹ Opportunities to have your say can be found at: <https://www.portsmouth.gov.uk/ext/community-and-environment/community/have-your-say.aspx>

¹⁰ Who are your Councillors, MPs and MEPs: <http://democracy.portsmouth.gov.uk/mgMemberIndex.aspx?bcr=1>

¹¹ Complaints procedure: <https://www.portsmouth.gov.uk/ext/the-council/transparency/comment.-compliment-or-complaint.aspx>

There are other partnership arrangements around the city's regeneration efforts such as the **Solent Local Enterprise Partnership (LEP)**, Transport for South Hampshire and the Isle of Wight, the Partnership for South Hampshire (PfSH) and the business leaders group, Shaping the Future of Portsmouth.

The Covid-19 pandemic has meant that the local authority has had to look at different ways to conduct its business and relationships with residents and partners, including moving towards virtual meetings carried out through remote access. In some cases, this will lead to streamlined processes but in others, it may be that there are risks that some people are excluded from processes, for example, by not having ready access to technology that allows them to participate. Considering these implications and learning from the new ways of working will be an important part of the recovery process for the city council and its partners.

C. Defining outcomes in terms of sustainable economic, social and environmental benefits; and D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Organisational goal and aspirations for the City



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

Portsmouth City Council has a shared organisational goal (above), which is designed to be simple, reflecting the fact that although we are a diverse organisation, everything the council does is designed to make the city a better place and improve life for our residents. All of us are working together to shape Portsmouth, a great waterfront city that:

- Has a **sustainable economy** that delivers **regeneration** and **inward investment**, creates opportunities and **drives prosperity** for our residents
- Has **high quality homes**
- Is a **great place to live** that makes best use of our natural assets and supports a **vibrant and diverse culture**
- Offers **excellent education** and training so all our residents can achieve their full potential and businesses have the skills to grow
- **Protects and supports vulnerable residents**, encourages independence and enables them to achieve their full potential
- Keeps residents **healthy** and the city **safe**.

We have set clear priorities about the way we will work and what we be trying to achieve. We will:

- Make Portsmouth a city that works together, enabling communities to thrive and people to live healthy, safe and independent lives
- Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit
- Make our city cleaner, greener and safer
- Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures
- Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do.

Planning and monitoring

In order to secure these outcomes for residents and service users, the Council needs to respond to some tough challenges. The Council has been required to make £102m in savings and efficiencies over the past 9 years (48% of controllable spend) in order to balance the Budget, ensuring that spending remains in line with income and funding levels.

For the period 2020/21 to 2022/23, the expectation is that forecast savings of of £7.5m will be required, with the driving force for this reductions in Government funding.

Adults and Children's Social Care represent 53% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures and have historically received significant protection from savings - resulting in proportionally higher savings across other Council Services. The Local Government Finance Settlement has provided substantial relief for the cost pressures in Adults and Children's Social Care in 2020/21 of £5.4m, but is not clear if this is new money to the Local Government system in the longer term and remains a risk going forward.

Medium Term Financial Strategy

The Council's Medium Term Financial Strategy (MTFS) has been developed to respond to these very challenging circumstances. The strategy has a renewed emphasis on regeneration, innovation and creativity leading to stimulation of the funding base (Council Tax and Business Rates) and income generation as a means to make savings and avoid cuts to services.

The overall aim of the strategy is to ensure that "in year" expenditure matches "in year" income over the medium term whilst continuing the drive towards regeneration of the city, being innovative, creative and protecting the most important and valued services. There are four strands to the strategy:

- **1 - Transforming to an innovative and creative Council:** income generation; regeneration and meeting housing need; strategic use of property and assets; investment for commercial gain; developing and establish commercial entities to sell services profitably; capital investment for jobs and business growth (increased business rates); establishing strategic partnerships and shared service arrangements to reduce costs and increase resilience.
- **2 - Reduce the extent to which the population needs Council services:** re-direction of resources towards preventative services; design fees and charges policies to distinguish between want and need; capital investment towards jobs and skills to raise prosperity
- **3 - Increase the efficiency and effectiveness of the council's activity:** contract reviews; rationalisation of operational buildings; support to the voluntary sector; targeted efficiency reviews in resource hungry services; capital investment for on-going savings or costs avoidance
- **4 - Withdraw or offer minimal provision of low impact services:** strong focus on needs, priorities and outcomes; use the insights of councillors to inform priorities; use the results of public consultation to inform priorities.

The Council has a comprehensive supporting financial framework in place designed to avoid any financial obstacles to delivering the MTFS.

A critical risk for the coming year will be the impact of the Covid-19 pandemic, which will reduce some of the Council's income streams such as port dues and parking fees, and expenditure on some services may increase. However, the Council ended 2018/19 with a General Fund balance of £28m and was expected to have a General Fund balance of £20m at the end of 2020/21 prior to Covid-19. In addition, the council had earmarked General Fund reserves of £168m at the end of 2018/19, some of which could be redirected if the need arose. Although Covid-19 is putting the Council under financial pressure, the Council has adequate reserves to absorb this, and is developing a financial strategy to ensure that the most significant impacts are absorbed without detriment to the vital services that the

authority provides, many of which are under increased pressure because of the impacts of the pandemic.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Recruitment and induction

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

Training and development

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

Performance monitoring

All Officers receive regular one to ones with their Manager in order to monitor workload and performance. Opportunities are provided for identifying future training and development needs, and to track progress against objectives. The effectiveness of individual performance monitoring is tracked in a number of ways, including by asking staff about it as part of regular employee opinion surveys.

The Covid-19 pandemic is an enormous test of the capacity of the organisation. Many officers have been required to work under extreme pressure, and in different circumstances, such as increased home working. Others will have been required to move into different roles to supplement business critical activity. There will be a challenge for the organisation to ensure that the wellbeing of staff is managed, and that the impacts of the pandemic are sensitively addressed.

F. Managing risks and performance through robust internal control and strong financial management

Risk management

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

processes and unnecessary documentation, whilst ensuring that risk management remains an effective part of the governance framework. There is an increased focus on strategic risks.

Performance management

All directorates in the authority report on a quarterly basis against a full set of performance measures which reflect the functions and objectives of the directorates. These measures are reported to the Cabinet Members and considered in detail at the Governance and Audit and Standards committee. An annual overview of performance is produced and published alongside the Statement of Accounts.

Financial management

The s151 Officer is responsible for leading the promotion and delivery of good financial management so that public money is safeguarded at all times, ensuring that budgets are agreed in advance and are robust, that value for money is provided by our services, and that the finance function is fit for purpose. He advises on financial matters to both the Cabinet and full Council and is actively involved in ensuring that the authority's strategic objectives are delivered sustainably in line with long term financial goals. The s151 Officer together with finance staff ensure that new policies or service proposals are accompanied by a full financial appraisal which is properly costed, fully funded and identifies the key assumptions and financial risks that face the council.

Financial Rules were revised in 2013/14 by the s151 Officer so that Portsmouth City Council can meet all of its responsibilities under various laws, and continue to be updated on a rolling basis. They set the framework on how we manage our financial dealings and are part of our City Constitution. They also set the financial standards that will ensure consistency of approach and the controls needed to minimise risks. The s151 Officer has a statutory duty to report any unlawful financial activity or failure to set or keep to a balanced budget. He also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

The authority's financial management arrangements conform to the government requirements of the CIPFA Statement on "The role of the chief financial officer in local government (2010). The Director of Finance (Chief Financial Officer and s151 Officer) works with the Chief Executive and Deputy Chief Executive, helping to develop and implement strategy and deliver the strategic objectives. The Chief Finance Officer has input into all major decisions, and advises on financial matters to the Cabinet. He is responsible for ensuring that budgets are agreed in advance and that the agreed budget is robust, to ensure value for money is provided by our services, and is responsible for ensuring the finance function is fit for purpose. A protocol for the Chief Financial Officer in Portsmouth was approved in November 2011.

Data Management

The organisation has a designated data protection officer and clear and established processes for ensuring data is handled appropriately. There is regular reporting to the Governance, Audit and Standards committee on matters of information governance. The organisation has undertaken thorough preparation for the introduction of the General Data Protection Regulation, including enhanced training for all staff.

It is important to note that whilst there are strong processes for information management in the organisation, there have been a number of changes in processes to ensure that there is rapid response to community requirements as a result of the pandemic, and a number of new areas of business that the organisation has had to respond to quickly. An example would be the administration of business support grants. In some cases, we will, as an organisation, have identified some areas where standard

practices and processes can be streamlined, and may never return to the previous way of working. In other cases, we may have increased exposure to fraud or error, and will need to move as quickly as possible to re-establish necessary controls. A further example arising from the pandemic is a greater use of digital technology to interact with communities and partners presenting new challenges as well as new opportunities to review information management controls and make improvements to records management. Again, this is an area where the organisation will need to evaluate the learning as part of recovery, including balancing the risks and opportunities in new ways of working.

G. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

Transparency

The Council and its decisions are open and accessible to the community¹², service users, partners and its staff. The Freedom of Information Act 2000 (FoI) gives anyone the right to ask for any information held by a public authority, which includes Portsmouth City Council, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

All reports requiring a decision are considered by appropriately qualified legal, and finance staff with expertise in the particular function area before they are progressed to the relevant committee/group. Portsmouth City Council wants to ensure that equality considerations are embedded in the decision-making and applied to everything the Council does. To meet this responsibility, equality impact assessments are carried out on all major council services, functions, projects and policies in order to better understand whether they impact on people who are protected under the Equality Act 2010 in order to genuinely influence decision making. Information required to be published in made public in timely and accessible fashion.

Effective scrutiny

The Council operates five Scrutiny Panels¹³, overseen by a Scrutiny Management Panel and governed by their own terms of reference. It is important that Scrutiny Panels act effectively as one of their key tasks is to review and challenge the policy decisions that are taken by Cabinet. Topics that are chosen to be 'scrutinised' are looked at in depth by a cross party panel of Councillors. They assess how the Council is performing and see whether they are providing the best possible, cost effective service for people in the city. The panel's findings are reported to the Cabinet and may result in changes to the way in which services are delivered.

Monitoring and evaluating the effectiveness of the governance framework

Portsmouth City Council has the responsibility for conducting at least annually, a review of the effectiveness of its governance framework. The review of effectiveness is informed by the work of:

- The Chief Executive, Deputy Chief Executive and Directors within the Authority who have responsibility for the development and maintenance of the governance environment.
- The Chief Internal Auditor's annual report and opinion, and also by comments made by the external auditors and other review agencies and inspectorates.

¹² Meetings, agendas and minutes: <http://democracy.portsmouth.gov.uk/uucoverspage.aspx?bcr=1>

¹³ Further information on our Scrutiny Panels can be found at: <http://democracy.portsmouth.gov.uk/mgListCommittees.aspx?bcr=1>

- The Chief Financial Officer whose role is performed by the Director of Finance and Resources (and who is also Portsmouth City Council's Section 151 Officer) who has statutory responsibility for ensuring the proper management of all Portsmouth's financial affairs.
- The Corporate Governance Group, made up of the Chief Executive, the monitoring officer, the Chief Internal Auditor, the Director of Finance and Resources (Section 151 Officer) and the Director of Corporate Services with input from others as relevant. This group meets regularly to discuss corporate governance arrangements and issues, and to reflect on recurring themes and spheres of activity relating to council improvement.
- The Governance and Audit and Standards Committee

There is clear framework for evaluating the effectiveness of internal control, and for 2019/20 this has included:

- An evaluation of progress against previously identified governance issues.
- Reviews of:
 - The effectiveness of Internal and External Audit.
 - External Audit's Annual Plan and opinion.
 - The Annual Internal Audit report and opinion.
 - The Corporate Risk Directory.
 - Issues identified through performance management.
 - Corporate complaints and any complaints regarding Members.
 - Freedom of information requests.
 - Data protection and information governance issues.
 - Employee Opinion Survey results.

It is important to note that in 2020/21, the impact of the Covid-19 pandemic will be to significantly reduce the coverage of the wider assurance framework on the organisation. There will be a slightly reduced audit plan, to take account of changing circumstances, and reduced activity of a number of external inspectorates and regulators, as well as change in focus in some cases. It is also likely that some regular forms of insight, such as the Employee Opinion Survey will need to be refocused.

Significant governance issues for 2020/21

Portsmouth City Council have completed a number of actions over the last year, that have addressed or alleviated significant governance issues identified in the 2018/19 Annual Governance Statement. The following significant governance issues have been identified and further actions have been put in place against each, in order to strengthen the Council's governance arrangements.

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
1	Information governance - fulfilling responsibilities and requirements under the General Data Protection Regulation	Risk Management	Corporate working group to continue to ensure compliance with GDPR and Data Protection Act responsibilities	Good state of organisational compliance and low risk of sanction.	Chief Internal Auditor	Ongoing progress reporting to portfolio holder and committees.
3	Disaster recovery - risk management activity has identified that improvements need to be made in our arrangements for recovery in the event of losing key systems.	Highlighted through risk management and business continuity activity	Moving key elements of the IT infrastructure to the cloud to increase resilience of the systems critical to business continuity, reducing reliance on "on-premises" infrastructure.	Capability to restore key IT functions for the authority more quickly than the current 3-5 days.	Director of Corporate Services	Ongoing development and review
	The council continues to explore new ways of working, including partnering and alternative service delivery models (including with the voluntary, community and social enterprise sector) and taking more commercial approaches	Internal and external audit; performance and risk management activity	<ul style="list-style-type: none"> a) Ensure arrangements for traded services and arms-length organisations are fit for purpose b) Ensure new partnering arrangements have full regard to legal, financial and HR implications c) Look at arrangements for assurance on partner organisations and related parties 	Ongoing - various structures for different arrangements	Chief Executive & Chief Internal Auditor	Necessary changes reported on a regular basis to Cabinet, Governance, Audit and Standards Committee and Employment Committee.
5	Compliance with statutory duties and other external requirements and directives: ongoing changes in the work of	Performance and risk management	- Service and resource planning to set out scope of requirements and the needs to fulfil these.	n/a	Chief Executive and all service directors	Ongoing reports to portfolios and committees.

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
	local government and the role in relation to other agencies means that the organisation needs to monitor the scope of duties, powers and expectations. Examples include Air Quality, National Planning Policy Framework expectations, Brexit risks and burdens					
6	Budget/ financial position, specifically in respect of demand-led services including Adults and Children's Social Care and impact of financial uncertainty	External audit plan	Ongoing monitoring of progress - transformation strategies developed	Financial gaps closing and eliminated over the medium term	Director of Finance, Director of Children's Services and Chief of Health and Care Portsmouth	Ongoing quarterly reporting on financial position to Cabinet; updates to portfolio holders
Page 105	New governance and working processes across strategic partnership arrangements, including closer integration with the clinical commissioning group	Internal self-assessment	Ongoing monitoring of progress	Robust governance across complex partnership agendas	Chief Executive	Ongoing reporting
8	Capacity within the organisation and key individuals, in light of further organisational restructure	External Audit reports; internal self-assessment	Ongoing monitoring of progress, including through quarterly performance reporting; longitudinal study of workforce capacity and risks	n/a	Chief Executive	Ongoing reporting

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
Governance risks and exposures relating to Covid-19						
9a	Changed ways of working in light of pandemic - more remote working, more digital working, streamlined processes - what stays long term and what were short-term fixes that will revert? What might be the impact of changed ways of working on evidence trails?	Covid-19 pandemic response and recovery plans	Issues will be worked through as part of the wider organisational recovery plan from the pandemic.		Chief Executive/ Gold Group	As part of organisational recovery
9b	New duties and responsibilities eg. grant administration, local outbreak plans	Covid-19 pandemic response and recovery plans			Chief Executive/ Gold Group	As part of organisational recovery
9c	Reduced assurance framework - how to ensure organisation still doing the right things, in the right ways and achieving the right outcomes	Covid-19 pandemic response and recovery plans			Chief Executive/ Gold Group	As part of organisational recovery
9d	Financial risk - challenge of addressing additional costs and lost income arising from the pandemic	Covid-19 pandemic response and recovery plans			Chief Executive/ Director of Finance and Resources / Gold Group	As part of organisational recovery
9e	Capacity risk - how to ensure that the organisation retains capacity in key areas with risk of staff wellbeing and "burnout", and with officers simultaneously	Covid-19 pandemic response and recovery plans			Chief Executive/ Gold Group	As part of the organisational recovery

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
	addressing emergency response issues, recovery and business and usual activity - challenge to deliver any transformational activity in support of longer term goals					

Effectiveness of the system of internal control

During 2019-20 Internal Audit & Counter Fraud completed 57 full audits and 31 follow up reviews to plan. The results show that the level of 'No Assurance' and 'Limited Assurance' audited areas have decreased from the previous year, which is positive move and reinforces the judgement that the direction of travel is that of 'good improvement'.

This position is however countered by a residue issue, which has been highlighted over several years that the number of implemented actions, still remains poor, with only a 1% improvement from last year (Previously 40% actioned, increased to 41% for 2019/20). Although arrangements were amended and clients were given prior notice additional steps need to be enacted. Internal Audit will be conducting a second follow up on open/ in progress actions and, should inactivity remain, escalation to the Corporate Governance Board and individual directorates on a quarterly basis will occur.

Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance. Limited Assurance is provided again this year, with the above narrative that the internal control framework in operation at Portsmouth City Council is improving.



Any significant corporate weaknesses and agreed actions are reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2019/20 may affect that year's work for External Audit. It may also inform their work for 2020/21 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.

Summary of significant governance issues for 2020/21

Over the coming year, Portsmouth City Council will take steps to address the issues that have been identified in order to improve the Council's governance arrangements and improve assurance in the areas of most concern. Progress will be monitored and reported to the Governance and Audit and Standards Committee regularly over the next year.

Clearly, a very significant number of risks and governance exposures for the organisation arise from the immediate response to the Covid-19 pandemic, and these will need to be addressed as part of the recovery. However, it must be recognised that the nature of the situation is that some areas of the business will still be working in a "response" phase even when others have moved onto a recovery or even business as usual footing, so there will be variation of approach across the organisation. These issues will be reported on as part of the usual reporting against the matters in the Annual Governance Statement and summarised in the Annual Governance Statement for 2020/21.

Signed on behalf of Portsmouth City Council

Cllr Gerald Vernon-Jackson, Leader of the Council

Date

David Williams, Chief Executive

Date



Title of meeting:	Governance and Audit and Standards Committee
Date of meeting:	20 th November 2020
Subject:	Risk and assurance management policy
Report by:	Kelly Nash, Corporate Performance Manager
Wards affected:	n/a
Key decision:	No
Full Council decision:	No

1. Purpose of report

- 1.1 The report presents the council's risk and assurance management policy to the Governance and Audit and Standards Committee for approval.

2. Recommendations

- 2.1 The Governance and Audit and Standards Committee is asked to:
- 1) Approve the attached Risk and Assurance Management Policy
 - 2) Agree to review the risk management policy in November 2022, including risks current at the time and lessons learnt over the previous year.

3. Background

- 3.1 The Council is committed to embedding a culture of risk awareness within our everyday activities such that formal processes and unnecessary documentation can be minimised but that risk management remains an effective part of the governance framework.
- 3.2 The attached Risk and Assurance Management policy sets out how this will be achieved. Significant features of the policy are:
- Roles and responsibilities are set out clearly
 - Components of process, such as training and monitoring are clearly described.
- 3.3 Whilst it is accepted that risk cannot be entirely eradicated, the following are areas on which the council will not compromise its position by taking a greater level of risk than is absolutely necessary. It will also take all reasonable steps to eliminate or mitigate the risks where identified, including but not limited to:
- where there is risk of physical harm

- where non-compliance with legislation could lead to imprisonment or significant fines.

3.4 The Corporate Risk Directory is usually considered by the Governance and Audit and Standards Committee on a quarterly basis as part of the regular performance monitoring from the organisation. This monitoring has been suspended as the organisation has focused on the response to the Covid-19 pandemic, but it is expected that this reporting will resume in early 2021. The reduction in usual corporate monitoring has been noted as an exposure in the Annual Governance Statement for the year.

4. Reasons for recommendations

4.1 The policy has been in effect since 2013, and has been regularly reviewed to ensure that it is in line with the current structure. For this review, references to outdated practices (such as staff completing risk forms) have been removed, and recommendations from a previous Internal Audit piece of work have been incorporated (including clarifying the learning and development expectation).

5. Integrated impact assessment

5.1 An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

6. Legal implications

6.1 Legal considerations have been taken into account in the preparation of this report and where appropriate embodied within it.

7. Director of Finance's comments

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

.....
Signed by: Paddy May, Corporate Performance Manager

Appendices:

Appendix 1 - Risk and Assurance Management policy

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

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

Title of document	Location

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

.....
Signed by:

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Policy Title: *Risk & Assurance* *Management*

Summary:

Risk is a fact of life in an ever changing landscape. By attempting to foresee and avert problems in the delivery of services and maximise opportunities, it helps ensure that resources are used in the best way possible. Risk management is a fundamental part of how we operate and forms part of our Corporate Governance Framework.

These Policy and Procedures are designed to support a risk culture which is embedded in the way we work rather than having a process which itself is used to drive risk management.

ID	<i>RM-002</i>
Last Review Date	<i>November 2020</i>
Next Review Date	<i>November 2022</i>
Approval	<i>G&A&S</i>
Policy Owner	<i>Kelly Nash</i>
Policy Author	<i>Corporate Performance Manager</i>
Advice & Guidance	<i>Kelly Nash 023 9268 8157 kelly.nash@portsmouthcc.gov.uk</i>
Location	<i>Policy hub</i>
Related Documents	<i>http://intranlink/Media/HST_2012_Apr_Corp_Health_and_Safety_Pol_3rd_edition.pdf</i>
Applicability	<i>All PCC staff</i>

Section One: Risk Management Statement of Policy

1. Statement of policy

- 1.1 The Council is committed to embedding a culture of risk awareness within everyday activities such that formal processes and unnecessary documentation can be minimised, but that risk management remains an effective part of the governance framework.
- 1.2 It is accepted that not all risks can be eliminated or mitigated, and a balance must always be struck between the costs of risk reduction against the likelihood and impact of the risk (risk exposure).
- 1.3 Where the organisation is required to behave in a specific way to meet legal and financial governance requirements for example, statutory officers have determined corporate directive controls, such as the City Constitution which have been approved by Members. Compliance with these controls should prevent governance legal and financial threats arising in the first place. Where service controls are required these fall under the auspices of the relevant head of service, which includes their implementation and monitoring.
- 1.4 Risk impacts can be financial loss, non-achievement of objectives, environmental damage, personal injury or ill-health, legal action and reputational damage or a mix of these. Most serious risk impacts will include financial loss, legal action **and** reputational damage but the very worst are likely to include an element of either service failure, injury or environmental damage as well.
- 1.5 Evaluation of the potential financial impact of a risk will include not only the direct costs such as fines, infrastructure repairs and liability claims but indirect costs such as loss of officer time, including support staff such as Finance and Legal, loss of staff morale and productivity, lost opportunities, increased insurance premiums and reduced funds which could impact on future service delivery.
- 1.6 The Council as a public body has to protect and preserve its ability to provide services and ensure that assets are protected against significant loss and damage and interruption to service delivery is minimised.
- 1.7 Whilst it is accepted that risk cannot be entirely eradicated, the following are areas on which the council will not compromise its position by taking a greater level of risk than is absolutely necessary and will take all reasonable steps to eliminate or mitigate the risks, including but not limited to:
 - Where there is risk of physical harm
 - Where non-compliance with legislation could lead to imprisonment or significant fines

SECTION TWO: Procedures

2. Roles and responsibilities

- 2.1 It is the responsibility of all members and employees to be aware of risks when carrying out their duties and to alert the relevant service manager to the threat. Managers must ensure that threats are properly evaluated and mitigated.
- 2.2 The following table details the roles and responsibilities of Members and Officers of the Council

Governance and Audit and Standards Committee	<ol style="list-style-type: none"> 1. Monitor the effectiveness of the Council's overall risk management arrangements as part of the Governance Framework 2. Review and approve the Council's Risk Management Policy 3. Seek assurance that risks are being managed effectively 4. Review the adequacy of the system of internal control as highlighted by Internal Audit 5. Promote member compliance with the RM Policy
Cabinet/ Portfolio Holders/ all Members	<ol style="list-style-type: none"> 1. Seek assurance that risks are being managed effectively 2. Set the Council's risk culture and appetite 3. Consider risk implications when making or evaluating decisions 4. Challenge the adequacy of controls or actions taken to mitigate identified risks.
Chief Executive/ Deputy Chief Executive	<ol style="list-style-type: none"> 1. Determine the RM Policy and procedures and create the environment for them to work effectively including promoting and supporting a risk awareness culture, 2. Maintain awareness and oversight of the most significant risks facing the organisation 3. Obtain assurance from Directors that risks have been considered, in the delivery of their services and mitigated 4. Challenge Directors on the adequacy of controls or actions taken to mitigate risks 5. Ensure regular reporting to Governance and Audit and Standards Committee
Corporate Governance Group	<ol style="list-style-type: none"> 1. To keep under review the Risk Management & Assurance Framework to ensure its adequacy & effectiveness 2. To identify any themes that arise and propose corporate actions to mitigate or escalate as appropriate 3. To review the risk register prior to submission to Governance and Audit and Standards Committee

	4. To ensure that assurance for key areas is mapped and any gaps in assurance addressed
Directors	<ol style="list-style-type: none"> 1. Promote risk awareness and responsibilities to employees 2. Consider risks to service delivery and evaluate appropriate responses including the introduction and monitoring of effective control 3. Obtain assurance that risks have been considered, in the delivery of their services and mitigated 4. Risk assess any decisions and option analyses 5. Report promptly to the Chief Executive/ Deputy Chief Executive & relevant Portfolio Holders any perceived new risks or significant failures in controls 6. Maintain channels of communication to encourage bottom up reporting of risks and control failures 7. Ensure compliance with corporate directives controls as a first response to governance financial and legal threats. 8. Where Directors are acting as Project Directors they must ensure that risks have been considered and mitigated (where possible) recorded and form part of the information to the Corporate Governance Group and Members
Strategy Unit	<ol style="list-style-type: none"> 1. Maintain the RM Policy, including highlighting where communications or training support are required 2. Report on significant risks to G&A&S 3. Maintain a Directory of most significant risks affecting the Authority 4. Report to Corporate Governance Group and G&A&S within the relevant timing of the risks on mitigation with either assurance or alerting to weaknesses in actions
Internal Audit and Assurance	<ol style="list-style-type: none"> 1. Carry out periodic audits on assurance and effectiveness of RM procedures 2. Assist in providing assurance on the management of risk and effectiveness of controls
Managers, supervisors, team leaders	<ol style="list-style-type: none"> 1. Promote risk awareness and communicate responsibilities to employees 2. Maintain awareness of the risks within their area of responsibility 3. Actively encourage staff to report risk concerns 4. Evaluate risks and appropriate responses 5. Escalate risks that have significant impact to relevant Directors

All employees (including contractors and partners)	<ol style="list-style-type: none"> 1. Be aware of threats, opportunities weaknesses or failures in control in their day to day activities 2. Comply with controls that have been set up to mitigate risks and identify where they can be strengthened 3. Report promptly to their manager any perceived new risks, failures in controls, lost opportunities or where controls can be strengthened
----------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

3. Training and Embedding

3.1 Embedding the risk culture will be achieved by a combination of the following:

- (1) E-learning on Risk Awareness to be available to staff
- (2) Risks to be considered at DMT's, meetings with portfolio holders, one to ones and any other meetings held to discuss service performance, objectives, progress, new decisions, options, changes in working practices or legislation,
- (3) Risks identified by outside parties such as partners, contractors insurance providers etc. will be brought to the attention of the relevant manager and dealt with accordingly
- (4) Significant risks from Audit reports will be included in the Risk & Assurance Directory
- (5) Significant risks highlighted from Managers responses to the governance framework will also be included in the Risk & Assurance Directory
- (6) The Risk & Assurance Directory will be reported to Corporate Governance Group based on the timing of the risk.

4. Corporate Risk and Assurance Directory

4.1 The Risk & Assurance Directory will be a formal register of all significant strategic risks that could impact the Authority and will be maintained by the Strategy Unit.

5. Directorate Risk and Assurance Directories

5.1 Directorates will maintain their own risk and assurance directories. Risks on these will be recorded in assurance categories (see 6.3) with the mitigating actions and person responsible.

5.2 Risks will be profiled as High (red) Medium (Amber) or Low (Green).

5.3 Each risk will contain a comment from the relevant Director re the risk appetite applied to the risk and any costs of mitigation.

6. Risk Assessments

6.1 Significant risks from Directorate Risk and Assurance directories will be escalated to the Strategic Risk & Assurance Directory by the Director when the threat, likelihood and impact of the risk could cause:

- the failure or unacceptable interruption of the delivery of a service that is provided to ensure support to vulnerable people, or to protect the environment
- Personal Injury or harm
- Loss of trust or integrity in the Council's dealings with others
- Ineffective use of council resources resulting in objectives not being met or reducing resources such that it impacts on the delivery of other objectives or services.
- A missed opportunity to contribute long term to objectives that would make a positive difference to how a service is delivered

6.2 Other activities that will identify significant risks to be escalated to the Corporate Risk & Assurance Directory include:

- Project managers will provide regular feedback to relevant project boards. Any significant risks will be escalated to the Risk & Assurance Directory by the Project Director either directly to the Chief Executive/ deputy Chief Executive or via performance returns dependent on timing of the risk
- Legal risks will be considered by the Deputy Chief Executive and Resources Portfolio holder and will be contained within their own register.
- IT project risks will provide regular feedback to the project board/sponsor and any significant risks escalated to the Risk & Assurance Directory by the Project Manager.
- Significant risks highlighted from the review of the Governance Framework will be escalated to the Risk & Assurance Directory by the Director concerned.

6.3 Risk assessments will include direct and indirect costs of control, mitigation and exposure:

- Staff costs, including HR, Legal and Finance (support staff costs)
- Fines
- Legal Claims
- Increase in Insurance premiums
- Infrastructure repairs
- Hidden costs such as impact on staff performance and morale
- Reputational harm

6.4 Risk assessments should also include the timing of the threat e.g. is the threat likely to be in the next few months? Coming year? Winter? Summer? Etc. If a time cannot be attributed to it the threat maybe incorrectly defined.

- 6.5 Examples of areas of risk include:
- Business Continuity
 - Fraud
 - Security of data
 - People: Delegations, Competency of staff, compliance with Policies, Recruitment and performance, health and safety
 - Procurement and contract letting and monitoring
 - Finance; budgetary control, cash management
 - Organisation: governance, policies, priorities, consultation, communication, structures, security,
 - Service delivery; resources, partners, joint or shared working
 - Environment; buildings comply with legislation, legionella, asbestos, severe weather
- 6.6 Examples of questions to consider when assessing risks include:
- What are the threats (re fraud, business continuity etc) in particular which ones are key to your service delivery or could impact on another's service delivery?
 - What are the threats that could cause a service to fail? What would the impact of that failure be?
 - Are there any compensating controls and if they are robust?
 - How do you gain assurance that they are?
 - What is the timing of the threat? Could it happen at any time?
 - What is the risk appetite? Is it ok for the threat to materialise because for example there is a backup plan that can be immediately (or quickly) implemented?
 - What is the cost of the control?
 - What would the cost of the threat (s) materialising be?

6. Assurance

- 6.1 All Directorates will have a mechanism to identify and assess risk on a continuous basis and determine mitigation. Controls introduced to mitigate threats must be monitored at regular intervals to ensure that they are effective. If they are not effective action to remedy the situation must be taken e.g. to review the control itself or enforcement. This testing of controls and any other mitigation will form the assurance that a threat is being managed.
- 6.2 Assurance must be available in the form of evidence that can be verified (e.g. business continuity business plan and testing of its robustness) where significant risks are identified.
- 6.3 To give assurance on the key areas (as defined from time to time by the Corporate Governance Group) an assurance map showing the evidence to support the management of those areas will be compiled and maintained by the Internal Audit Service. This map will currently cover the following areas:
- Financial risks including risk of/exposure to fraud
 - Technical eg. cybercrime, system failure and disaster recovery
 - Political including decision-making

- Legal risk, including fulfilling Statutory obligations
- Specific vulnerabilities including Legionella, Data Protection, Fire risk etc

7. Monitoring and Review

- 7.1 The Risk & Assurance Directory and assurance map will be considered by Corporate Governance Group and G&A&S in accordance with timings of risks.
- 7.2 Managers are responsible for monitoring their own risks in accordance with this policy and procedures and escalating where relevant

Agenda Item 7

Title of meeting:	Governance and Audit and Standards Committee
Date of meeting:	Governance and Audit and Standards Committee 20 th November 2020
Subject:	Statement of Accounts 2019-2020
Report by:	Director of Finance and Resources (Section 151 Officer)
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Purpose of report

To consider the Statement of Accounts for 2019/20.

2. Recommendations

- a) That the Statement of Accounts be approved
- b) That authority be delegated to the Chair of the Governance and Audit and Standards Committee to sign an amended 2019/20 Statement of Accounts after 20th November should this be required following comments by the auditor

3. Background

Under the Accounts and Audit Regulations 2015 the Director of Finance and Information Services was required to sign and date the statement of accounts, and confirm that he was satisfied that the accounts presented a true and fair view of the financial position of the authority at 31 March and of the authority's income and expenditure for 2019/20, by 31st August 2020.

From 1st September 2020 to 12th October 2020 any person was able to inspect the accounts of the Council for the year ended 31 March 2020 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts and other documents relating to those records). From 1st September 2020 to 12th October 2020, a local government elector for the area of the Council, or his/her representative, could object to the Council's accounts asking that the auditor issue a report in the public interest (under schedule 7 of the Local Audit and Accountability Act 2014) and/or apply to the court for a declaration that an item in the accounts is contrary to law (under section 28 of the Local Audit and Accountability Act 2014). These rights were not exercised in respect of the Council's draft Statement of Accounts for 2019/20.

After considering comments from the auditors, and making adjustments that he felt were appropriate, the Director of Finance and Resources (Section 151 Officer) has re-confirmed that he is satisfied that the Statement of Accounts presents a true and fair view of the financial position of the authority at 31st March and of the authority's income and expenditure for 2019/20. A list of non-trivial adjustments made by the Director of Finance and Resources (Section 151 Officer) so far is contained in the Appendix. Any further non-trivial adjustments made by the Director of Finance and Resources (Section 151 Officer) will be tabled at the meeting.

The Statement of Accounts 2019/20 includes an overview of the City Council's performance on pages 14 to 20 and a commentary on the financial statements on pages 20 to 35.

4. Reasons for Recommendations

The Accounts and Audit Regulations 2015 now require members of the Council to:

- a) consider the statement of accounts;
- b) approve the statement of accounts by a resolution
- c) ensure that the statement of accounts is signed and dated by the person presiding at the committee at which that approval is given

Portsmouth City Council discharges these responsibilities through its Governance and Audit and Standards Committee.

The Governance and Audit and Standards Committee now have two options:

- 1) Approve the statement of accounts
- 2) To identify areas of concern and not approve the accounts

In considering the statement of accounts the Committee should take into account any comments made by the auditor.

Under the Accounts and Audit Regulations 2015 the Council must publish its accounts together with any certificate or opinion entered by the auditor by 30th November.

The audit of the Statement of Accounts is ongoing. Therefore it is recommended that authority be delegated to the Chair of the Governance and Audit and Standards Committee to sign an amended 2019/20 Statement of Accounts after 20th November should this be required following comments by the auditor

5. Integrated impact assessment

An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right

6. Legal implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

If the statement of accounts is not approved by the Committee by 30th November the Council will be in breach of the Accounts and Audit Regulations 2015. Failure to approve and publish the accounts within the timeframe set out in the Accounts and Audit Regulations 2015 would represent a potential risk to the reputation of the Council.

7. Director of Finance & Resources (Section 151 Officer) comments

All financial considerations are contained within the body of the report and the attached appendix.

.....
Signed by Director of Finance & Resources (Section 151 Officer)

Appendix: List of non-trivial amendments made by the Director of Finance and Resources (Section 151 Officer) (to be tabled at the meeting)

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

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

<u>Title of document</u>	Location
1 Accounts and Audit Regulations 2015	Legislation.gov.uk website
2 Information pertaining to the audit in the possession of the Council	Financial Services

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Non-Trivial Adjustments Made to the Accounts Since Publication on 7 August

Narrative Statement - Impact of COVID-19

It was stated that the Council has so far been awarded government grants of £14m, leaving a shortfall of £18m. In October the Government received a further tranche of government grant of £5m. As a consequence the Council has now been awarded government grants of £19m leaving a shortfall of £7m.

Statement of Accounting Policies (Note 1)

It was stated that the net total impact of COVID-19 on the General Reserves is currently estimated to be a reduction of £18m. In October the Government received a further tranche of government grant of £5m. As a consequence the net total impact of COVID-19 on the General Reserves is now estimated to be a reduction of £7m.

Expenditure and Income Analysed by Nature (Note 8)

The analysis of expenditure was incorrect. Employee benefits expenses are £1,756,000 more than stated, other services expenses are £6,159,000 less than stated, and depreciation, amortisation, impairment, revaluations are £4,403,000 more than stated. Total expenditure is correctly stated at £642,130,000.

Operating Leases - City Council as Lessee (Note 37)

Future rent payments on Limberline Industrial Estate were miscalculated. As a consequence total minimum lease payments were understated by £5,468,000 with the correct total being £33,992,000. The total rents including contingent rents were also understated by £5,468,000 with the correct total being £60,318,000.

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**Draft
Statement
Of
Accounts
2019/20**

The City Council's draft Statement of Accounts for 2019/20 is currently unaudited and may be subject to change

Chris Ward 
Director of Finance & Resources
(Section 151 Officer)

Date 30/7/2020

Councillor Leo Madden
Chair of the Governance and
Audit and Standards Committee

Date

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Narrative Statement

Financial Year Ended 31st March 2020

Introduction

The narrative statement provides an overview of Portsmouth City Council and comments on its performance, both financial and non-financial. It also attempts to provide an easily understandable guide to the most significant matters reported in the accounts and assists in their interpretation.

Overview

Our context - the city

Portsmouth is the UK's only island city, with Portsea Island accounting for 62% of the city's land mass, and 75% of the population. The city continues to be the most densely populated area in the UK outside London, with an estimated population of 215,000 residing within 15.5 square miles. Portsmouth is ranked 57th most deprived out of 326 local authorities in England (where 1 is the most deprived), with 15% of the city's population experiencing income deprivation. Charles Dickens ward tends to be the most deprived ward in the city across all of the various domains. 22% of all children in the city are living in poverty (which is above the England average) and in some areas this rate is twice the national average (Charles Dickens). An example of the city's low household incomes, is that the percentage of children in the city known to be eligible for, and claiming free school meals, is higher than the national average.

Portsmouth has a comparatively high proportion of young people aged 20-24 years compared to England, due to the city's University and colleges (11.4% of Portsmouth's total population compared with 6.2% nationally). In 2019, approximately 140,900 people aged 18-64 years are estimated to be resident in Portsmouth; and approximately 30,800 residents aged 65 years and over (of which approximately 4,400 residents are aged 85 years and over).

At the time of the 2011 Census, Portsmouth had a lower percentage of residents from Black, Asian and minority ethnic (BAME) communities (people identifying with an ethnicity other than White English/Welsh/Scottish/Northern Irish/British) compared to England (16% compared to 20%). However, 32,800 residents make Portsmouth a diverse multi-ethnic community. A larger proportion of BAME groups (except mixed) are of working age compared to the White British group. In the case of school-age children in the city, 20% are not of White British ethnicity. Over 100 languages are spoken by pupils attending Portsmouth schools.

There are approximately 88,000 dwellings in Portsmouth. Private stock accounts for nearly 81% of the dwellings in Portsmouth, with the remainder divided between the local authority (13%) and registered social landlords (6%). Nearly half of the private sector housing stock was built before 1919, which is more than twice the England average. In terms of dwelling type, 63% of Portsmouth's private dwellings are terraced houses, again twice the England average (29%).

Portsmouth performs a key role as an employment hub for its suburban hinterland, most notably the boroughs of Fareham, Gosport and Havant which supply nearly a quarter of the city's workforce. Unemployment in the city is typically on a par with the average for Great Britain, but around 0.5% higher than the South East region's average. Adults in Portsmouth have lower than average levels of skills and qualifications, with approximately 24% of the working age population having no or low qualifications (NVQ1 equivalent). We know that local resident earnings are significantly lower than local workplace salaries, suggesting that many of the higher level jobs are filled by people commuting in to the city. It is expected that levels of unemployment may rise due to the impact of the COVID-19 pandemic on the local economy.

Portsmouth is well connected with strategic road and rail routes as well as domestic and international ferry routes to a range of destinations. There are five train stations in the city, with the railway line running through the heart of the city, north to south. However, intercity rail journeys from and to Portsmouth are relatively slow. Consultation with residents suggests that affordability of public transport, especially bus fares, is a major issue. We also have limited road capacity due to the "island" nature of the city, and only three road routes off Portsea Island, although congestion levels compare well with other cities. However, traffic and associated emissions are a significant challenge to air quality in certain areas of the city.

Our context - the City Council and how it works

The people of Portsmouth obtained their charter from King Richard in 1194. There has been a Mayor in Portsmouth since at least the 13th Century. With the municipal reforms of 1832, Portsmouth became a borough with an elected Council that in turn became a county borough in 1888. Portsmouth became a City by Royal Charter in 1926. In the local government reorganisation of 1974, Portsmouth became one of the thirteen districts within the county of Hampshire. With the further reorganisation of local government, Portsmouth became a Unitary Authority on 1 April 1997. Portsmouth City Council now provides the full range of local government services including Education, Social Services, Highways, Waste Management, Leisure, Libraries, Youth Services, Planning, Economic Regeneration, Public and Environmental Health, Trading Standards, and the Council also runs the largest municipal port in the UK.

The council has 14 wards, each served by 3 councillors. We operate a decision-making system of a Leader and Cabinet.

The Cabinet currently consists of the Leader of the Council and nine other Cabinet members. The Leader is elected by Full Council, and it is for the Leader to select the Cabinet. The Cabinet makes decisions on important matters that affect the City Council as a whole. Each of the Cabinet Members has responsibility for a portfolio of Council activities and in 2019/20 these were:

- Children and Families
- Education
- Community Safety
- Culture and City Development
- Environment and Climate Change
- Health, Wellbeing & Social Care
- Housing
- Resources
- Traffic & Transportation

Roles, responsibilities and the way that we do the business of the council are set out in the Constitution of the authority.

The City Council's staff are managed by the Chief Executive, who is the Head of the Paid Service. The Chief Executive is supported by directors, each of whom deals with a broad portfolio of the functions of the authority. The current director team is:

- Director of Children's Services and Education (and statutory Director of Children's Services and a joint post with the Portsmouth Clinical Commissioning Group)
- Chief of Health and Care Portsmouth (shared post with the Portsmouth Clinical Commissioning Group)
- Director of Finance and Resources (statutory s151 officer)
- Director of Public Health (statutory post)
- Director of Culture, Leisure and Regulatory Services
- Director of Regeneration
- Director of Housing, Neighbourhoods and Building Services
- Director of Corporate Services
- Port Director

The role of Monitoring Officer is fulfilled by the City Solicitor.

Our context - our partners

The city has excellent partnership working with;

- other local authorities
- colleagues in health, including the Clinical Commissioning Group (CCG)
- the police
- probation services
- the fire and rescue service
- the University of Portsmouth
- the voluntary and community sector
- businesses

For many years, we have had three key theme-based strategic partnerships - the Health and Wellbeing Board, Children's Trust, and the Safer Portsmouth Partnership. In 2019, these partnerships were reviewed and folded into a single Health and Wellbeing Board with a broadened remit and membership, to improve efficiency and ensure that issues are being considered strategically and as they affect people and the city across all dimensions.

There are other partnership arrangements around the city's regeneration efforts such as the Solent Local Economic Partnership (LEP), Solent Transport, the Partnership for South Hampshire (PfSH) and the business leaders group; Shaping the Future of Portsmouth.

Other examples of working together include the sharing of key management posts with other authorities (such as Gosport, Southampton and the Isle of Wight) and developing shared services across authorities (for example, the Building Control Partnership, and the development of the Regional Adoption Agency, Adopt South).

Partnerships with colleagues in the health sector have been developing strongly over time and we have recently agreed to strengthen links with the CCG, by moving to a model for shared functions across adult services, children's services and public health. This is an important step in ensuring that services for Portsmouth's population are commissioned and delivered with a strong understanding of local communities and their needs, and took a significant step forward in 2019 with the development of the Health and Care Portsmouth model.

Our context - finances

Since 2011/12 the Council will have made £102m in savings (48% of controllable spend). Government funding reductions have been the driving force behind the need to make forecast savings of £7.5m over the current period 2020/21 to 2022/23. We expect that there may be a greater savings requirement in future as we address the financial implications arising from the pandemic.

Adults and Children's Social Care represent 53% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures and have historically received significant protection from savings - resulting in proportionally higher savings across other Council services. The Local Government Finance Settlement has provided substantial relief for the cost pressures in Adults and Children's Social Care in 2020/21 of £5.4m, but it is not clear if this is new money to the Local Government system in the longer term and remains a risk going forward.

The Council has a relatively low tax-base and a relatively low tax charge. That means that both the average Council Tax band is low and the amount of Council Tax charged to residents is also low compared with our statistical neighbours. By illustration, the Council receives circa £6.0m per annum less in Council Tax than the average Unitary Authority within its statistical neighbour group. By keeping the level of Council Tax down, a gap has emerged which if closed would reduce the savings requirement of the Council by the same sum. Council Tax currently represents 41% of the Council's non-specific funding, and as Government funding has reduced, this has become increasingly more important as a funding source for the Council.

In response to the considerable financial challenge, the City Council has followed a Medium Term Financial Strategy (for both revenue and capital) with an emphasis on regeneration, innovation and creativity leading to stimulation of the funding base (Council Tax and Business Rates) and income generation as a means to make savings and avoid cuts to services.

Medium Term Financial Strategy

The overall aim of the strategy is to ensure that "In year" expenditure matches "in year" income over the medium term whilst continuing the drive towards regeneration of the City, being innovative, creative and protecting the most important and valued services There are four strands to the strategy:

Transforming to an Innovative and Creative Council - through income generation

Reduce the extent to which the population needs Council Services - through improving prosperity and managing demand

Increase the efficiency & effectiveness - by improving value for money across all services

Withdraw or offer minimal provision of low impact Services

What the Council does and why

We have been through a sustained period of challenge for local government. At a time of great pressure on public finances, we need to tackle huge need in the community, some key barriers to economic growth and continue to deliver the services that support a vibrant city.

In Portsmouth, we are rising to the challenge. We aim to make Portsmouth a place that is fairer for everyone; a city where the council works together with thriving communities to put people at the heart of everything we do. We have set clear priorities that, as an organisation, we will:

- Make Portsmouth a city that works together, enabling communities to thrive and people to live healthy, safe and independent lives
- Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit
- Make our city cleaner, greener and safer
- Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their future
- Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do.

So as well as delivering the essential services we are required by law to do, such as collecting and disposing of waste, keeping roads safe, ensuring our children have school places, providing regulatory services that keep people safe and protect our environment, we are focusing on these areas, and making sure that everything we do is in line with achieving this.

Make Portsmouth a city that works together, enabling communities to thrive and people to live healthy, safe and independent lives

A great city supports those who are most in need, and works to provide opportunities for everyone. We need to help all our residents make the most of opportunities so they can live independently and be safe and healthy.

We know that there are major inequalities in health and wellbeing outcomes across the city, in particular, between genders (shorter male life expectancy) and between different areas of the city. The most deprived areas are affected by higher rates of unemployment, smoking, alcohol consumption, mental ill-health.

To ensure that we support our most vulnerable and in-need residents, we are working to:

- help people achieve a safe, resilient and healthier lifestyle
- support people experiencing homelessness, including those rough sleeping
- working closely with the NHS and other partners to offer joined-up services
- facilitate environments and opportunities that support wellbeing
- help communities to help themselves
- ensure our most vulnerable children and adults are supported and protected.

A significant focus is on transforming the way we provide adult social care in the city, to ensure that we are meeting needs and providing sustainable services. A strategy for this transformation is in development and will be shaping every area of services, from information, advice and guidance through to the provision of care packages and the residential care we provide.

We are developing a new way of working with the voluntary, community and social enterprise (VCSE) sector in the city, as we know that there are huge strengths that these partners can bring to tackling some of the challenges in the city. People from local VCSE services in the city, PCC and the CCG are committed to working together. They will be building on work delivered as part of the Project Bridge initiative, with the objective of building a happier, healthier and more connected city.

There is a shared desire to build strong communities and resilient neighbourhoods within Portsmouth which are able to take social action to improve the health and wellbeing of everyone living and working in the city. There is a recognition that the VCSE sector, the council and the CCG need to work together to co-produce, with the people of Portsmouth, the future well-being of the city.

The physical symbol of this wider partnership is HIVE Portsmouth, which is the home of the central point of contact for services and community connection in the city. HIVE Portsmouth aims to become the home of social action and enterprise where people can come with ideas and be supported to grow them. It will also be an organisational hub for those in the VCSE sector who are committed to the vision and culture of HIVE Portsmouth.

A range of services have been commissioned and bid for through the HIVE Portsmouth framework - including a sitting service (My Time) and a social prescribing service - and there are plans to make further bids to support the long term future of the project.

HIVE Portsmouth is:

- a commitment - to working differently and being the best we can be
- a cooperative - it's a way of giving the voluntary sector an equal seat at the table
- a central hub - starting with the Central Library, we're developing a physical front door to statutory and community services - and want to roll out similar locations across the city.

The power of our shared arrangements has been demonstrated in the immediate response to the COVID-19 pandemic, where the HIVE have co-ordinated a range of support services to some of the most vulnerable people in the city, including those in the "shielded" group. Support has included the provision of food parcels, welfare calls and liaison with pharmacies to ensure people receive medicines.

Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit

Regenerating the city to ensure that it continues to provide great opportunities for residents, businesses and visitors remains a major priority. For Portsmouth, the cultural and creative sector is at the heart of regeneration, and we are looking to create new cultural focal points and experiences in the city. This includes building on the growing city reputation for events, with the city taking a lead role in commemorations for the 75th Anniversary of D-Day and the Battle of Normandy.

Portsmouth was the focus of national and international attention on Wednesday 5 June 2019, when Southsea Common hosted the UK's national commemorative event for D-Day 75. PCC also facilitated events with a community focus encapsulating the themes of remembrance, reflection and reconciliation, including the Portsmouth Revival, a vintage festival including military and classic vehicles and vintage stands and traders, along with community performances. Portsmouth's contribution to the ongoing legacy of D-Day will continue in 2020, when the last surviving Landing Craft Tank in Europe - LCT 7074 - will come to a new purpose built location on Southsea seafront, in partnership with the National Museum of the Royal Navy.

We know that Portsmouth needs to continue developing strategic locations to support the regeneration of the city.

As part of the City Deal secured in 2014, the Tipner/Horsea development site will be unlocked. Areas of Tipner have long been largely derelict, but the land has massive potential to form a key gateway to Portsmouth. Regenerating the area will bring major benefits to the city, most notably, free up the road network; encourage sustainable transport; clean-up contaminated land; create new open spaces, parks and waterside walks; create much needed homes and jobs. The Department for Transport awarded £19.5m funding, which with £8.5m of council money, has delivered a new junction on the M275, access to key sites and a park and ride with more than 650 spaces.

Eventually it is planned to develop all of Tipner, on both sides of the motorway with a bridge link to Horsea Island enabling Bus Rapid Transit. We are working with Homes England and Tipner Regeneration Company (TRC) who are developing their own land for housing and some business space.

Portsmouth is also seeking a transformational change to the city centre to enable it to perform a pivotal role in delivering the growth and increased productivity that the city needs to achieve. This includes development of a Joint Venture with a developer to create the future vision, and in the meantime seeking to improve the commercial offer and customer experience through the Future High Streets Fund, improve the quality of the air and the environment, and create a sense of place.

The impact of the COVID-19 pandemic on the plans for the city will emerge in the coming months. There will be an impact on the finances of the City Council, and therefore our ability to take some schemes forward, and it may be that there are similar market conditions to those seen in 2008, although the indications are that the Government would like to support infrastructure and regeneration projects as part of the wider national recovery programme.

Make our city cleaner, safer and greener

In March 2019, the City Council took a unanimous decision to support a motion to declare a climate emergency for the city, which included pledges to develop an action plan for reducing the carbon footprint of the city. Work has progressed to take this forward, including the development of a PCC Climate Strategy, the convening of a Climate Action Board, and the development of a Greening Strategy.

The coastal nature of the city means that it is particularly vulnerable to some of the impacts of climate change, and for some time the authority has been working to develop the coastal defences. In 2019/20, we continued to take forward the North Portsea Flood Defence Scheme as part of a £58m Environment Agency funded project for the north of Portsea Island. Highly acclaimed public realm improvements have been a notable feature of this work which will protect circa 4,000 homes. Also working in partnership with the Environment Agency, the Southsea Flood Defence Scheme has obtained HM Treasury approval to commence the £120m refurbishment of flood defences at Southsea. Work will commence in September on this sensitive project which will both enhance the seafront, protect circa 10,000 homes and provide regeneration initiatives.

Like many cities across the country Portsmouth is facing a serious problem with air quality. Newly available monitoring data from last year shows the situation is continuing to get worse and we won't improve the situation as quickly as the government wants, so work is underway to address this situation. There were some short term improvements in air quality recorded during the lockdown, but it is uncertain if we will see any long term gains, particularly with public transport use discouraged in the short term.

We also published a new strategy to support residents to reduce their energy and water costs, including the "Switched On Portsmouth" website and in time we expect that this will also support improvements in energy usage in the city. Our Energy Services team won the Regional Council of the Year award at the 2019 Energy Efficiency awards, and were highly commended in a second category for work around mitigating fuel poverty and the provision of affordable energy for vulnerable residents. The team also achieved national recognition for the 'Solar Schools Program', delivered in partnership with West Sussex County Council, which provides 80 schools in the South East with 5 megawatts of clean energy and £158,000 of associated savings.

We also commenced a Food Waste trial for the city, collecting this waste separately to dispose of it in a more sustainable way. In February 2020, the Cabinet approved the extension of this trial until September 2021, and the addition of a further 9,000 homes to the city scheme. This commitment to responsible waste management was reinforced by the approval of a Capital Programme that included funding for an Anaerobic Digestive facility.

In 2020/21, we will be continuing to drive on an agenda of carbon reduction, and trying to build on some of the opportunities and learning from the COVID-19 pandemic, in terms of how people can be supported to walk or cycle around the city rather than driving; or how carbon reduction initiatives can play a part in the wider recovery process.

Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures

Education is the foundation stone to give our children and young people the best chances in life. We must make educational achievement for all our young children the very best it can be. This will give our children the best opportunities in life and in the longer term, reduce the need for our services. So, we want to raise education standards so our children and young people achieve their full potential. We know that despite children getting off to a really good start in their education, young people leaving school at 16 in Portsmouth are not achieving results at the same level as their peers in much of the country, and we know this needs to improve.

In Portsmouth, there are 50 primary schools, 10 secondary schools and four special schools in the city (including one multi-site provision). In addition there are two further education colleges, one maintained nursery school and a University Technical College (UTC), which is a school for young people aged 14-19 interested in pursuing a technical career. UTC Portsmouth has specialisms in Electrical & Mechanical Engineering and in Advanced Manufacturing. These specialisms are key to helping our economy to grow.

Around 16% of all children in Portsmouth have some level of special educational need, and about 3% of children with the most complex needs have an Education, Health and Care Plan to help support their needs around their education. Portsmouth is fortunate to have some outstanding special school provision (including Mary Rose Academy and Cliffdale Primary Academy).

The Portsmouth Education Partnership (PEP) brings together Multi Academy Trusts (MATs), schools, colleges, early years settings, Higher Education Institutions, the Local Authority, teaching schools, the Regional Schools Commissioner (RSC), Portsmouth Dioceses and Education Business Partnership South to improve attainment and opportunities for children and young people across the city. The PEP was launched in 2016 in response to a changing and complex educational landscape and the need to significantly improve educational outcomes for children and young people in the city. The PEP seeks to build on a strong platform of collaborative working in Portsmouth, to maximise the collective resource that is available both within and outside the city.

The PEP vision is to ensure that:

- educational attainment and progress improve significantly year on year so that children and young people are prepared for the widest career opportunities;
- all children and young people, whatever their background and circumstances, are confident, resilient, enthusiastic, happy, healthy and well prepared for adulthood and active involvement in their communities; and
- Portsmouth is seen as the place of choice for the very best senior leaders, teachers and other education staff, where professional development is fostered, career ambitions met and workloads kept manageable.

In support of education in the city, we have completed a number of building schemes, including a new art and drama hall at Northern Parade Federated School, an extension at Cliffdale School and an intensive 66 day build project at the Lantern, a new facility to accommodate 14 pupils with significant physical and mental disabilities.

We are also working hard to support our most vulnerable children and families, through the next phase of the Stronger Futures programme. There is a national picture of increasing numbers of children becoming looked after by local authorities, and this is the case in Portsmouth, which also has a pressure from unaccompanied minors arriving in the city. Our numbers per 10,000 are higher than statistical neighbours, and in order to address this we are looking at some changes to our ways of working, for example, introducing the Mockingbird model for foster caring, and looking at a Family Safeguarding Approach.

The implications of the COVID-19 pandemic for children and families are not yet fully understood, but we know that some of our most vulnerable families will have suffered hardship, and that many children will be struggling with the disruption to their education, routines and with the lack of opportunities for play and exercise. Over the coming months, we will be doing a great deal of work with partners across the city to support schools to reopen and help children get back on track with their education, and also working to help families who have been struggling to get back on track.

Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do

Our shared aim is to make Portsmouth a place that is fairer for everyone; a city where the council works together with thriving communities to put people at the heart of everything we do.

There are many examples of how as an authority we are trying to embody this aim in our work. We are taking a real "Portsmouth First" approach to our property investments, and taking a creative approach to generating income so we can support local communities despite financial challenges. An example of this is the purchase of the Lakeside North Harbour site, which means that PCC now own the only Grade A office stock in the city, and are able to support businesses and drive social value. We have also set up a crowdfunding platform to support microbusiness in the city.

We are also looking at the models of practice we use with service users and between ourselves to create an environment where there is positive collaboration and communication.

In some areas of our business, we are continuing to roll out restorative practice, which is an approach that can be applied to relationships both with colleagues in the council and externally with customers. It is about working 'with' people and empowering them to have a voice. Restorative practice has the potential to impact on every area of life, and ensures that communication is respectful, accessible and safe with a focus on restoring relationships, by promoting conversation and choice rather than apportioning blame. We are also driving strengths-based working to ensure that we start to work with people from a basis of what they can do, rather than from a lens of things they can't do.

A key piece of work we have started in 2019/20 is the development of a collaborative city vision. We have been consulting widely with stakeholders in the city to understand what is important to them and how they want to see the city develop in the next few years. This process included an event at the Pyramids centre in March, attended by over 70 residents (broadly representative of the city) who generously gave their time to share their thoughts and ideas with us.

As the city starts to think about how it recovers from the huge shock of the COVID-19 pandemic, the continuing development of this work will be vital in shaping priorities and projects in the future. A wider consultation on developing themes is expected to take place in the summer.

The agenda set out above is extensive and challenging, particularly because need and demand continue to rise as resources reduce. The impact of the COVID-19 pandemic has created some new challenges. But the circumstances also gave us opportunities to think differently about some issues, and reinforced the importance of long held priorities. We need to continue our work to protect and support the most vulnerable in society, whilst at the same time capitalising on opportunities to deliver economic expansion and job creation.

Portsmouth is an extraordinary city and in our response to the extraordinary first half of 2020, we have shown ourselves to be a strong city. We need to continue working effectively and creatively, simplifying and sharing so that we can confront the unique set of challenges before us now, ensuring that no one is left behind, and the city continues to thrive.

Performance

The City Council is a diverse organisation, and performance is monitored on a quarterly basis against business plans set by the directorates. This performance is reported to Cabinet members; to the full Cabinet as part of the quarterly finance and performance reports; and in detailed reports to members of the Governance and Audit and Standards Committee.

Key issues relating to our performance in 2019/20 are:

Adult Social Care

Adult Social Care is an increasingly high profile area of local authority business. There has been for some time acknowledgement at national level that social care is under increasing pressure, for a variety of reasons, including increasing demand; and that the quality of the social care system is critical to ensuring that health services remain viable in the medium to long term. The experience of dealing with the pandemic has demonstrated the critical nature of the care sector, but also placed it under unprecedented pressure. Ensuring that the wider care sector in the city remains sustainable will be a key priority for the authority in 2020/21, but we have strong relationships with providers in the city, and this puts us in a good position to work together.

We also have excellent partnerships across the wider health system in the city, through the Health and Care Portsmouth arrangements. In 2019, a new IT system went live for the service. System1 enables NHS and social care professionals to view patient records and inform decision making and communication by knowing of each other's involvement. Feedback from GPs in the city demonstrates the positive impact of seeing social care involvement, as it enables informed risk decisions around conveyance and admission.

Additionally, the implementation of a shared record system to support the reduction in the need for multiple assessments and enable services to be brought together in the community. The success of the project has been made possible by full user involvement in planning and decision-making and partnership working with our local NHS colleagues.

Partnership working with Hampshire County Council colleagues transferred management of a Council owned Nursing home from a previous contractor to the County. The home has previously experienced an embargo on admissions and had 'requires improvement' ratings from the Care Quality Commission. Work with procurement, finance and project management teams across both councils enabled a smooth transition from one management to another and moved the home to a 'good' rating in under 18 months.

Working in conjunction with residents and families, the service was also able to re-provide residential care for people living in out-dated/unfit for purpose residential stock and enable people to move to a modern, purpose built residential care home. The out-dated stock has been demolished and will be repurposed to provide supported living/extra care for people living with dementia.

Working with the NHS provider trust and Portsmouth CCG, PCC was able to allocate the annual winter pressures grant, in conjunction with winter pressures funding from the NHS, and develop shared schemes that enabled people to be discharged from hospital more quickly and removed any blocks from capacity for care in the community.

Children's Services

In 2019/20, the local authority underwent two significant inspections of children's services. The first was a joint Ofsted/CQC inspection of services for children with special educational needs and disabilities, which looked at the local area arrangements (commissioned jointly with the CCG) to identify and support these children and their families, and ensure they achieve good outcomes. The inspection identified some areas for improvement, but recognised the strength of partnership working and co-production with families in the city, and highlighted a number of areas of good practice and provision.

The city continues to place a high priority on support for children with SEND and their families. The high-needs block continues to be well managed, and capital funds available to the authority have been directed to providing more places at specialist schools. Co-production activity continues to thrive, including the development of a neurodiversity pathway as a key output in 2019.

In the winter, a Joint Targeted Area Inspection of safeguarding took place with a focus on mental health. Again, the strength and depth of partnership in the city was recognised as a driver of good practice in the city and examples of good and excellent working were identified. These include the developing integration with the CCG, with the Director of Children's Services overseeing children's commissioning through the CCG.

In children's social care, considerable work has taken place to bring the service to a position of financial sustainability, through a combination of work to reduce the requirement for care placements, and to reduce the ongoing cost of placements that are required. This includes developing a wider Family Safeguarding Model to support families to stay together safely, and the Mockingbird model to support the stability and quality of foster placements. However, the city continues to deal with high levels of unaccompanied minors, and this - along with ongoing high numbers of children in care - means that we are seeing a rise in young people leaving care and needing support until they are 25.

Portsmouth continues to underperform as a city in terms of educational attainment, and associated indicators around attendance and exclusions are also less positive than we would like them to be. In order to attract the best teachers to the city, we launched the Teach Portsmouth campaign, including a new website to help people find out how to train to teach and find a job in Portsmouth. We had sought to address the ongoing challenge of poor attendance in some of our schools through the "Miss School, Miss Out" campaign. Evidence shows that children who attend school regularly are more successful, not only in school, but in all areas of life. The campaign highlighted to parents and young people that missing school means not only missing out on lessons, but also clubs, friendships, careers support, trips and all the other opportunities that school has to offer. Last year 1 in 5 children in Portsmouth missed a week of school because of unauthorised absence, leaving gaps in their learning.

Unfortunately, the impact of this campaign will have been reduced because of the COVID-19 pandemic, and many children have now experienced very significant disruption to learning. For some children, particularly those for whom school is a safe haven, the implications will have been even more severe. We know that much of the 2020/21 academic year will be focused on helping children catch up and recover from the things they may have experienced, or anxieties that may have developed.

Public Health

There have been some significant achievements for the service in 2019/20.

Working with Public Health England, funds were secured and approval given to purchase two houses to provide support for people who are overcoming an alcohol dependency. This will provide accommodation where they can develop independent living skills before moving on to independence.

The Wellbeing Service received 3,033 referrals from primary and secondary care and individuals who wished to improve their health by quitting smoking, losing eight and reducing harmful alcohol consumption. In addition the service also worked in collaboration on the Long Term Condition Hub pilot and provided training around mental health and behaviour change to 481 local health care staff.

Despite many positive achievements in terms of project delivery, and outcomes for individuals, the city remains above national averages for rates of a number of conditions and harmful behaviours. In 2019, a process was started to refresh the existing Health and Wellbeing Strategy to focus on creating the conditions in the city to change some of these issues. This has been paused due to the need for public health resources to be directed to responding to the COVID-19 pandemic. In 2020, when the work is able to restart, there will be a key focus on tackling health inequalities, which has been demonstrated to be a fundamental issue for our society.

Culture, Leisure and Regulatory Services

The directorate oversees a wide range of services that are incredibly important to the experience of living in the city, and has much to celebrate from 2019/20.

D-Day 75 was a significant event that was made possible by an impressive effort from many colleagues across the local authority and with many partner organisations. Hosting royalty, heads of state and heads of government on Southsea Common was a major showpiece for the city. The feedback that we received from visitors and from residents was a credit to the city. We saw a rise in visitors to the city, and hotel operators reported that many visitors had been inspired by seeing Portsmouth in a new light.

In 2019, the launch of Portsmouth Creates saw the beginning of a new strategic body for developing culture in the city, supported by Portsmouth City Council, Victorious Festival, the University of Portsmouth and the Arts Council. Their first project, the We Shine event, was due take place later in 2020.

PCC received development phase funding for a £2.8m project from the National Lottery Heritage Fund for Victoria Park, which will be an important project in what was opened in the late nineteenth century as 'the people's park'. As well as open spaces, the directorate oversees the sports and leisure facilities offer in the city, and following the change of operator for facilities, to BH Live, a number of changes to sites have started to take place to improve the city offer, reflected in strong visitor numbers. We are now working with the support of Sport England and supported by funding from Public Health to develop a strategic approach to facilities in the city that will ensure we have fit for purpose provision in the longer term. We are also continuing to engage with the Football Foundation and County FA to develop football facilities that improve the offer in the city.

Major exhibitions were held at Portsmouth Museum including the D-Day Veterans portraits with loans from the Royal Collection and work by local artist Karl Rudziak; and the Portsmouth Revisited exhibition included works from the Royal Collection and The Tate which have never been seen in Portsmouth before. The museum also hosted a touring exhibition of a rarely-seen Dodo skeleton.

Services providing a statutory function play an important role in keeping our residents safe. Regulatory services colleagues brought some high profile and important prosecutions to protect residents. Colleagues in regulatory services have also been heavily engaged on the Brexit agenda, along with our Emergency Planning team. Emergency Planning Services are delivered as part of a shared service with Southampton, and in addition to meeting its work programme targets, embedding the shared service and building upon its successes to date is a major current focus. This includes supporting officers to develop into their new roles and remit and supporting the new Joint Emergency Preparedness, Resilience and Response Board.

The service faces a number of challenges. Much of our building portfolio from which we operate is either scheduled or listed, and we will continue to have deal with the implications of this in terms of maintenance. Finding sustainable uses for buildings will be a continuing focus, and the possibilities are highlighted in the Hotwalls studios which are now in their third year of operation. We are also aware that many of our residents and communities are either living in deprivation or with very limited disposable income.

The implications of the COVID-19 pandemic have been severe for the service, and for the cultural life of the city. Libraries, museums and other venues, such as sports facilities, have been closed. Scheduled events, such as Victorious Festival, have been cancelled. The implications have been significant in terms of opportunities for residents, the impact on the local economy and revenue for the authority. Teams such as Emergency Planning and Regulatory Services have been significantly engaged in the response to the pandemic. Much of 2020 will be focused on managing the recovery phase and addressing some of the implications.

Housing, Neighbourhood and Building Services

There were a number of achievements to celebrate in the wider directorate, reflecting the wide range of activities that are undertaken.

Building services have delivered a number of projects in the schools portfolio, as well as completing a revolutionary refurbishment of the 11-storey Wilmcote House blocks to provide thermally efficient homes. The team also supported an upgrade of lighting at Victoria Pier in Old Portsmouth, to improve energy efficiency and reduce light pollution; restored and redecorated Portsmouth Watersports Centre, ensured new facilities in Kingston Park were opened, delivered work at the Civic War Memorial space to create improved public realm, and delivered numerous other improvements to buildings and spaces to improve environments and reduce environmental impact.

Work continued to support some of the most vulnerable people in the city, through the provision of neighbourhood based support. Following a consultation period, the final homeless strategy was presented to Cabinet and approved this year. The strategy will allow us to approach homelessness in a strategic and planned way, doing the best we can to help those on the streets. In future, this approach will need to take account of actions undertaken to respond to the COVID-19 pandemic. The service also provided a holiday food and fun scheme through the adventure playgrounds, to help battle holiday hunger and ensure children are introduced to vegetables and how to cook healthily.

The Ian Gibson Court Care Team were shortlisted for the Housing Heroes Awards 2019, for Support and Care team of the year. The service received CQC validation, and feedback from residents, families and Adult Social Care services have praised the quality and responsiveness of care delivered.

The service also launched the Rent it Right leasing scheme, which provides private landlords with peace of mind and a stress free experience, so that landlords will lease properties with PCC, so that we can move people out of temporary accommodation and into sustainable homes.

Work continued to ensure that Portsmouth is as green and clean as possible. The flower bed at Lake Road was planted by the Buckland Green and Clean team to commemorate the 75th anniversary of D-Day, with flowers planted in the design and colours of the city crest. In 2019/20, the Green and Clean teams have planted 300,000 bulbs across estates in Portsmouth and Havant. The team also delivered a "Big Winter Project", planting 4,075 plants over 11 zones in front of housing along the Eastern Road. Fostering pride in the environment is critical and enforcement is used when necessary, In September, the enforcement team were successful in prosecuting a resident for failing to contain and control trade waste following fly tipping, and a fine was issued of over £2,000.

In terms of wider waste collection issues, the city continued to provide an efficient waste service and also began a food waste trial, which was subsequently extended, as the city looked to boost recycling rates.

Key challenges for the next year will focus on recovery from the COVID-19 pandemic, including finding a sustainable strategy for move-on accommodation for residents supported in hotels over the period of lockdown. There is also a financial pressure for housing services arising from the impact of the loss of rental income from Leamington and Horatia Houses, and a trend in rising social housing rent arrears. However, there will be other challenges including creating a viable development to progress the demolition of the two towers in Somerstown,

Regeneration

The Directorate has been working to ensure statutory duties are met and that work is focused on the key tasks that contribute to our corporate priorities and the regeneration of the city.

A number of improvements have been delivered to improve infrastructure in the city, including the road network. Cycle improvements have been completed and a number of measures taken along the A2047 (London Road/Fratton Road/Kingston Road) to improve safety and roadcraft among drivers and cyclists, including the first Tiger crossing installed in the city. Cycle safety schemes have also been implemented at Gladys Avenue/ Northern Parade, and Copnor Road/New Road junctions. Phase one of the Department for Transport funded Safer Roads scheme has also been completed on Southampton Road. The city has also maintained its commitment to school safety by installing a number of new crossings at school sites, and implemented two speed reduction schemes on Greatham Street and Locksway Road.

We have completed a standard street lighting conversion to LED and adaptive lighting policy roll out that will reduce annual energy consumption by 496,116kWh - this translates into a reduction in CO2 emissions of 140,436kg, the equivalent of 28 filled hot air balloons.

A number of strategic regeneration projects have also progressed well, with a number of consultation and engagement exercises underway on some key sites, including the Tipner West development and the Records Office site.

The service also supports an Employment and Skills service, which has delivered work programmes including Bridge2Work, Well@Work and Work and Health to over 200 individuals, successfully supporting many into long term employment. The service has also supported individuals to seek health care and advice, including supporting 160 individuals to overcome health related barriers to work through weight management, smoking cessation and other addictive behaviour. The Enterprise Centres, have had 90.6% occupancy of available space, supporting 607 jobs in the city.

A very significant project for the Directorate is the preparation of the new Local Plan for the period until 2036. This will set out the planning strategy for meeting future development needs in the city for the period up to 2036. For example, it will identify the amount of housing that is needed and where it will be built. It will also protect various areas such as open space and conservation areas. The preparation of the new Local Plan will be accompanied by a Sustainability Appraisal to assess the extent to which the Plan will help to achieve relevant environmental, economic and social objectives, and a Habitats Regulations Assessment to determine any likely impacts of the Plan's policies and site allocations on internationally protected natural assets. Once adopted, the Local Plan will replace existing planning policy documents and form the basis for taking decisions on planning applications. The Local Plan sits alongside the National Planning Policy Framework, which sets out Central Government's planning policies, and with which the Local Plan should be consistent.

The plan will influence the delivery of a number of important projects for the directorate, including the development of the Tipner site, a masterplan for the city centre, and the delivery of the Southsea Coastal Defence Scheme.

The service is also involved in supporting Brexit preparations for the city, ensuring that any potential highway implications are understood and managed to minimise any potential impacts. The team ensured that an emergency lorry park was completed in readiness for any need. This will continue to be a challenge for the city to manage, alongside looking at how the recovery from the COVID pandemic can incorporate learning and opportunities for more sustainable living, including more active travel. The lorry park prepared for Brexit has performed a key role as a COVID testing site.

Corporate Services

Portsmouth City Council delivers a huge number of services to residents, visitors and businesses in Portsmouth, and there are a range of corporate and professional services that support and enable these services.

Our city helpdesk performs well, achieving customer satisfaction levels in excess of 90%. We are successfully moving contact to digital channels, where it is appropriate to do so.

Collection of council tax and NNDR continues to be strong, as does the collection of overpaid housing benefits, and claiming of subsidy.

The issue of information continues to be of great importance, and as an organisation we have carried out significant work to be able to implement the General Data Protection Regulations. There is continued strong and consistent performance across business-as-usual areas for corporate services. The Childcare legal team continues to perform strongly.

Portsmouth City Council holds a Gold award in the Defence Employers Recognition scheme in acknowledgment of our work in support of the Armed Forces Covenant. Portsmouth was the first unitary authority in the south east to receive this accolade, and continues to work hard to support the forces and veterans community in the area.

Financial governance & accountability targets are being met, and strong corporate financial support ensures that we continue our history of meeting budget savings requirements. Successful trading operations, for example with HR services and payroll, and investment strategies are generating new income, although these are not without risk to the organisation.

However, the financial risk to the authority arising from the COVID-19 pandemic is not inconsiderable. The additional costs incurred, coupled with the loss of income to the authority means that there will be a need to look at a range of options for shoring up the position of the authority's budget, including looking at the corporate contingency reserve, and potentially reducing the capital aspirations.

Portsmouth International Port

A number of schemes have taken place to improve the offer at the International Port. Significantly, the Port agreed a plan to become a zero carbon port, and have started to implement measures to move towards this. A detailed design has been completed for a new cruise terminal, which will provide a bespoke area for cruise passengers to embark/disembark and improve efficiencies for both cruise and ferry passengers. Berth 2 has also been extended to allow larger cruise vessels to dock. The existing berth was configured to allow ferries to dock but was ill suited to many cruise vessels. By reconfiguring and extending the berth, the Port is now able to accommodate a greater range of cruise vessels.

In 2020, there will be challenges for the Port to return to business as normal, given the impact of the pandemic on travel and operations. It is also likely that trading conditions will continue to be challenging for cruise operators in the short term and this will impact on the activity and revenue of the Port.

Overall, the picture of performance in the authority is broadly positive. The business of a local authority is diverse, but we know what needs to be done to achieve good outcomes for the residents of the city. We are aware of the key contextual issues, and have an overview of the key risks to the organisation. There is an increasing dependency on key staff, and capacity of those staff to deliver increasingly complex briefs is a key risk to the organisation. We know where we are being effective, and are delivering good value for money. We know where improvements need to be made, and in most cases have a good understanding of how these can be delivered, and a plan to deliver the improvements. We focus on our priorities and on achieving our goal of ensuring that Portsmouth fulfils its potential as a great waterfront city.

Financial Statements 2019/20 - Commentary

The City Council has applied a preparer's materiality limit of £7m in compiling the financial statements. The City Council has generally not included disclosure notes for items of less than £7m.

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 Director of Finance & Resources (Section 151 Officer i.e. the Chief Financial Officer of the City Council) for the accounts.

- **Movement in Reserves Statement (MIRS):** This statement shows the movement in the year on the different reserves held by the City Council, analysed between 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 City Council has decided to set aside for specific purposes
- **Comprehensive Income & Expenditure Statement (CIES):** This statement explains the change in the net worth of the City 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 City Council's net worth. The statement is based on International Financial Reporting Standards (IFRS) 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 City Council does not fund these costs from taxation as they are incurred. This statement also includes capital grants and contributions which the City Council is not permitted to use to fund revenue expenditure.
- **Balance Sheet:** The balance sheet shows the net worth of the City Council, i.e. its assets less its liabilities as at 31 March 2020. The City Council's net worth is balanced by its reserves which are classified into usable and unusable reserves. Usable reserves may be used by the City 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".
- **Cash Flow Statement:** This statement shows how the City Council 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 City 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 to Accounting Policies in 2019/20

No changes to accounting policy have been made in 2019/20.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis is not a financial statement but a note to the accounts that aims to explain the relationship between net expenditure chargeable to General Fund and Housing Revenue Account (HRA) balances shown in the Movement in Reserves Statement (MIRS) and net expenditure on an International Financial Reporting Standards (IFRS) basis shown in the Comprehensive Income and Expenditure Statement (CIES). This is summarised in the table below.

	Revised Cash Limit £000	Actual Net Expenditure £000	Variance £000	Variance %
Children & Families	28,353	31,505	3,152	11.1
Community Safety	2,008	1,930	(78)	(3.9)
Culture & City Development	6,606	6,598	(8)	(0.1)
Education	5,490	5,995	505	9.2
Environment & Climate Change	12,561	12,484	(77)	(0.6)
Health, Wellbeing & Social Care	46,243	48,447	2,204	4.8
Housing General Fund	4,482	4,766	284	6.3
Leader	(21,832)	(22,149)	(317)	1.5
Licensing	(239)	(240)	(1)	0.4
Port	(7,353)	(7,476)	(123)	1.7
Resources	18,195	18,160	(35)	(0.2)
Traffic & Transportation	13,838	13,835	(3)	(0.0)
Portfolio Net Expenditure Charged to General Fund Balances	108,352	113,855	5,503	5.1
Non-portfolio - Housing Revenue Account (HRA)		(3,567)		
Non-portfolio - Other		27,078		
Net Cost of Services Charged to General Fund & HRA Balances		137,366		
Other Operating Income		(173)		
Financing & Investment Income & Expenditure		21,652		
Taxation & Non-specific Grant Income		(167,707)		
Surplus on Provision of Services Charged to General Fund & HRA Balances		(8,862)		
Adjustments for capital purposes including depreciation, impairment, gains & losses on disposal of assets, minimum revenue provision (MRP) for the repayment of debt, & capital expenditure charged to revenue		(2,092)		
Pension adjustments, ie. the extent to which the actuarial cost of providing pensions exceeds employers contributions to the pension fund		20,877		
Other differences including timing difference on Business rates		4,219		
Surplus Deficit on Provision of Services on an IFRS basis		14,142		

Overall portfolios overspent the revised cash limit by £5.5m. The most significant variances over £1m occurred in the Children & Families, the Health, Wellbeing & Social Care Portfolios. These variances are explained below.

Children & Families - £3.2m or 11.1% overspent

This overspend is mainly due to an increased number of placement requirements at increasing cost levels, particularly external residential placements.

Health, Wellbeing & Social Care - £2.2m or 4.8% overspent

This overspend is primarily due to higher than anticipated client numbers in residential and nursing care as well as an increase in the average cost of domiciliary care packages.

Non Portfolio Other

Other non-portfolio expenditure includes a number of items of which the most significant are investment of £4.5m in Portico, provision for the repayment of debt of £4.9m and capital expenditure financed from revenue balances of £10.6m.

Financing & Investment Income and Expenditure

This consists of interest payable & similar charges of £26.8m and interest & investment income of £5.1m.

Taxation & Non-Specific Grant Income

This consists of income from Council Tax of £79.7m, non-ring fenced government grants of £24.3m, and retained non-domestic rates of £63.7m.

The CIES records the City Council's income and expenditure on an IFRS basis. To facilitate this, a number of adjustments are required. These adjustments relate to net comprehensive expenditure which decreases the City Council's net worth but not its General Fund and HRA balances, or are capital in nature and statute prevents the expenditure being debited to General Fund and HRA balances. These adjustments, which increase net comprehensive expenditure include depreciation and impairments of £31.6m, partly offset by capital grants and contributions of £27.2m and revaluation gains of £17.4m. In addition, the net comprehensive expenditure is further increased by £28.8m of pension adjustments. These are in respect of changes in the actuarial assumptions used to value the pension fund assets and liabilities.

Movement in Reserves Statement (MIRS)

The MIRS shown on page 39 summarises how the City Council's reserves have moved over the last two years. General Balances including the General Fund, Earmarked General Fund Reserves, HRA and HRA Capital Reserve increased by £8.9m in 2019/20 (£13.9m in 2018/19). This is summarised in the table below.

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account Balance	Earmarked Housing Revenue Account Reserve	Total General Balances
	£m	£m	£m	£m	£m
Balance at 31 March 2018	(24.1)	(153.3)	(25.1)	(1.1)	(203.6)
(Increase) / Decrease in 2018/19	(3.4)	(14.4)	3.5	0.4	(13.9)
Balance at 31 March 2019	(27.5)	(167.7)	(21.6)	(0.7)	(217.5)
(Increase) / Decrease in 2019/20	0.4	(11.1)	1.5	0.3	(8.9)
Balance at 31 March 2020	(27.1)	(178.8)	(20.1)	(0.4)	(226.4)

Note: Brackets represent surpluses

General Revenue Reserves

General reserves can be applied to fund either revenue or capital expenditure and are held for two purposes. Firstly, they 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 amounts of funding that the City Council receives against the costs of delivering stable service levels.

General Fund - Balance £27.1m (£27.5m in 2018/19)

The City Council’s main General Fund Balance decreased in the year by £0.4m, representing the City Council’s overall performance on its General Fund activities. It is important to note however, that this decrease in General Reserves incorporates schools. The actual performance, in terms of the impact on the General Reserves of the City Council, analysed between those generally available to the City Council and those available to schools, is as follows.

	Schools (General Fund)	Rest of City Council (General Fund)	Total General Fund Balance
	£m	£m	£m
Balance brought forward as at 1st April 2019	(4.5)	(23.0)	(27.5)
Contribution (to) / from Reserves	0.4	-	0.4
Balance carried forward as at 1st April 2020	(4.1)	(23.0)	(27.1)

Note: Brackets represent surpluses

After taking account of the deficit (or draw down from balances) of £0.4m for schools, the rest of the City Council's General Fund balances remained at £23.0m.

The City Council's Revised Budget for 2019/20 (excluding schools) estimated that the General Fund balance would remain at £23.0m. The ultimate aim is for in-year expenditure to match in-year income. The City Council's actual General Fund balance did remain at £23.0m in line with the revised budget.

At present, the City Council has a policy of maintaining a minimum level of General Fund Reserves of £8.0m; any excess over and above this can be used to fund Council Services.

Housing Revenue Account (HRA) General Reserve - Balance £20.1m (£21.6m in 2018/19)

This is a statutory reserve that can only be used to fund HRA (council housing) activities.

Earmarked Reserves

Earmarked reserves hold funds which the City Council has decided to set aside for specific purposes. The City Council's earmarked reserves (both General Fund and HRA) amount to £179.2m (£168.5m in 2018/19). The more significant earmarked reserves are described below.

Earmarked for Capital Purposes – Balance £41.6m (£36.2m in 2018/19)

This is a reserve that is maintained as a source of funding for the Capital Programme. When the City Council set its budget in February 2020, it resolved that any underspending for 2019/20 arising at the year-end outside of those made by Portfolios be transferred to capital resources in order to provide funding for known and potential future commitments in future years. As a consequence of this the reserve increased in the year by £5.4m as contributions from General Balances exceeded the amount of the reserve applied to finance capital. The balance on this reserve will be required to finance future capital expenditure.

Medium Term Resource Strategy Reserve – Balance £21.3m (£20.8m in 2018/19)

This reserve was created as a means to fund spend to save schemes to facilitate efficiencies and go some way towards addressing the City 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. £0.5m was added to the reserve in 2019/20. The current balance of £21.3m is largely committed to funding schemes previously approved by the City Council or future anticipated redundancy costs.

Private Finance Initiative – Balance £6.1m (£7.9m in 2018/19)

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 £1.8m reflecting the net deficit between the Unitary Payments made to the PFI contractor and the PFI Grant, interest and contributions accruing to the reserve.

City Deal Reserves - Balance £24.5m (£24.1m in 2018/19)

The City Deal capital scheme to regenerate Tipner will take several years to come to fruition but will be largely funded by government grants that were received in 2013/14. This reserve holds funds that will be required to finance the City Deal capital scheme in future years. The balance on this reserve increased by £0.4m in 2019/20 due to interest transferred into this reserve.

Highways Maintenance Reserve £9.3m (£9.0m in 2018/19)

This reserve is to fund the ongoing maintenance costs of improvements to the highways network. This reserve increased by £0.3m in 2019/20 as sums were added to fund the maintenance costs arising from recently completed improvements to the highways network and interest was transferred to the reserve.

Investment Reserve £17.4m (£11.9m in 2018/19)

This reserve was established in 2017/18. The Government has issued new guidance to discourage local authorities from financing the acquisition of investment properties from borrowing. The Council has already acquired an investment property portfolio and had planned to sell properties in the portfolio from time to time and replace them with others. This reserve will provide a mechanism to do that.

Portfolio Reserves - Balance £6.3m (£7.7m in 2018/19)

These reserves provide a mechanism to enable portfolios to carry underspending in one year to the next year.

Other Reserves

Major Repairs Reserve - Balance £19.2m (£11.0m in 2018/19)

This is a statutory reserve which holds cumulative depreciation charged on HRA dwellings. This reserve may only be applied to fund HRA (council housing) capital expenditure or to repay HRA debt. Depreciation on HRA dwellings amounted to £22.2m in 2019/20. £14.0m of this sum was applied to fund HRA capital expenditure leaving an increase in the on this reserve balance of £8.2m.

Capital Receipts Reserve - Balance £17.5m (£15.8m in 2018/19)

This reserve holds capital receipts that the City Council is not required to pay to the Government under the housing capital receipt pooling arrangements. This reserve may be used to finance capital expenditure or to repay debt. This reserve increased by £1.7m in 2019/20 as the amount received as usable capital receipts exceeded the amounts applied to finance capital expenditure or repay debt.

Capital Grants Unapplied - Balance £58.0m (£54.9m in 2018/19)

This reserve holds grants that may only be applied to fund capital expenditure. This reserve increased by £3.1m in 2019/20 as the amount of capital grants received in the year exceeded the amount of capital grants applied to finance capital.

Capital Investment

Capital investment in 2019/20 amounted to £255.9m (£121.5m in 2018/19). £154m was spent on acquiring commercial property (£31.6m in 2019/20) including Lakeside North Harbour Business Park. The only other major item of capital expenditure was major repairs to council dwellings upon which £15.9m was expended (£14.9m in 2018/19).

The City Council has £136.7m available to fund capital expenditure consisting of the General Fund Earmarked Reserve for Capital Purposes £41.6m, the HRA Capital Reserve £0.4m, the Major Repairs Reserve £19.2m, Capital Grants Unapplied £58.0m and the Capital Receipts Reserve £17.5m.

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

- Coastal flood defences £138m
- Tipner Regeneration £43m
- Major repairs to council dwellings £155m
- Replacement council homes £100m

Comprehensive Income & Expenditure Statement (CIES) and Balance Sheet

The CIES explains the movement in the City Council's net worth shown at the bottom of the balance sheet on an IFRS basis as adapted by the CIPFA Accounting Code of Practice. The adjustments that are necessary to get from the movement in General Fund and HRA balances to the total comprehensive income and expenditure in the CIES are detailed in the Expenditure and Funding Analysis and its supporting note.

Net Cost of Services

The net cost of services has decreased by £7.9m from £202.3m in 2018/19 to £194.4m in 2019/20. This decrease was due to the deficit on the Housing Revenue Account (HRA) falling by £15.8m from £23.6m in 2018/19 to £7.8m in 2019/20 and net expenditure on other non-portfolio expenditure falling by £13.9m from £21.3m to £7.4m, partly offset by portfolio net expenditure increasing by £21.8m from £157.4m to £179.2m.

The reduction in the HRA deficit was primarily caused by a downward revaluation of Horatia and Leamington Houses in 2018/19 following the discovery of structural problems and the subsequent decanting of these buildings. Although changes in the value of the HRA dwelling stock affect the Council's net worth and are reflected in the CIES, they are reversed out of the revenue account in the Movement in Reserves Statement under regulations so that they do not impact on the HRA General Balances.

The reduction in other non-portfolio expenditure was primarily due to an additional £12.8m being charged to pension past service costs following the McCloud judgement in 2018/19. In the McCloud judgement the Court of Appeal found that transitional protection arrangements put in place when the Firefighters' and Judges' pension schemes were reformed were age discriminatory. It would be reasonable to assume that this judgement will affect other public sector defined benefit pension schemes including the Local Government Pension Scheme.

Several portfolios had slightly increased net expenditure in 2019/20 compared to 2018/19.

Financing and Investment Income and Expenditure

Net expenditure on financing and investment activities has decreased by £3.5m from net expenditure of £19.0m in 2018/19 to a net expenditure of £15.5m in 2019/20. This consists of net interest charges of £30.4m (£31.7m in 2018/19), the surplus on trading undertakings and operations of £6.0m (£3.4m in 2018/19) and the surplus from investment properties of £9.0m (£9.3m in 2018/19).

Taxation and Non-Specific Grant Income

Taxation and Non-Specific Grant Income fell by £9.3m from £204.2m in 2018/19 to £194.9m in 2019/20. Retained non-domestic rates income decreased by £19.2m in 2019/20 due to the Government reducing the proportion of non-domestic rates retained by the Solent Non-Domestic Rates pool from 100% to 75%. This was partly offset by income from Council Tax increasing by £3.3m and non-ring fenced government grants increasing by £7.3m.

Other Comprehensive Income and Expenditure

The Other Comprehensive Income and Expenditure section of the Comprehensive Income and Expenditure Statement consists of movements in the City Council's unusable reserves, principally the Revaluation Reserve and the Pensions Reserve, which affect the City Council's net worth but not its spending ability.

Overall Total Comprehensive Income and Expenditure has deteriorated by £77.7m from a net income of £41.0m in 2018/19 to a net expenditure of £36.7m in 2019/20.

Revaluation Reserve

On the Balance Sheet, gains amounting to £6.3m arising from the revaluation of non-current assets were posted to the Revaluation Reserve in 2019/20 (£22.6m of revaluation gains were posted to the Revaluation Reserve in 2018/19). However, these gains would 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 City 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 City Council to comply with International Financial Reporting Standards. The City Council's contributions to the pension fund are based on a full triennial valuation by the fund's actuaries. Regulations require the City 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 City 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 City Council's estimated pension liability net of pension fund assets as at 31 March 2020 was £427.4m which is very significant when compared to the City Council's net worth of £847.1m. The estimated net pension liability was £377.8m at 31 March 2019, but increased by £49.6m in 2019/20 primarily because of a reduction in the estimated fair value of pension fund assets of £48.9 from £770.5m in 2018/19 to £721.6m in 2019/20 reflecting unfavourable investment returns over the year.

Other Long Term Liabilities

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

- Long Term Borrowing - £661.2m (£580.5m in 2018/19). Long term borrowing has increased because £90m of new borrowing was undertaken, but only £8.6m of maturing debt was repaid. The new borrowing was necessary to fund the acquisition of Lakeside North Harbour Business Park.
- Other Long Term Liabilities includes service concessions (including Private Finance Initiative schemes) and debt transferred from Hampshire County Council following local government reorganisation - £85.1m (£89.9m in 2018/19).

The City Council's total long term borrowings are therefore £746.3m (£670.4m in 2018/19). To put this into context, the City Council's long term assets are valued at £1,803.8m (£1,693.4m in 2018/19).

Long Term Assets

The value of the City Council's long term assets has increased by £98.0m from, £1,693.4m at 31 March 2019 to £1,791.4m at 31 March 2020. This increase primarily related to property, plant and equipment which increased by £154.7m largely reflecting the purchase of Lakeside North Harbour Business Park. This was partly offset by a decrease of £66.0m in long term investments. This was because the Council had less surplus cash to invest following the purchase of North Harbour Business Park.

Short Term Debtors

The value of short term debtors has decreased slightly by £2.3m from £54.8m at 31 March 2019 to £52.5m at 31 March 2020. Impairment allowances for bad debts increased by £0.9m.

Short Term Creditors

The value of short term creditors increased by £7.5m from £54.9m at 31 March 2019 to £62.4m at 31 March 2020. £4.3m of the increase is Non-Domestic Rate receipts payable to the Government. In 2018/19 the Solent Non-Domestic Rate Pool retained 100% of Non-Domestic Rate growth. In 2019/20 the Solent Non-Domestic Rate Pool only retained 75% of Non-Domestic Rate Growth. In addition the Solent Non-Domestic Rate Pool which was administered by Portsmouth City Council closed on 31st March 2020. Upon closure £5.6m of Non-Domestic Rate income was due to the other participating Council's.

Net Worth

The City Council's overall net worth decreased by £36.7m in 2019/20 from £871.3m at 31 March 2019 to £834.6m at 31 March 2020 due to the reasons set out in the Comprehensive Income and Expenditure Statement.

The Cash Flow Statement

In year the City Council's cash flows are affected by its borrowings and investments, and movements in its debtors and creditors, i.e. debts collected and settled, in addition to its income and expenditure.

There was an inflow of £15.7m (£35.8m in 2018/19) from the Council's operating activities.

There was an outflow of cash of £100.7m from investing activities in 2019/20. In 2018/19 this was an outflow of £48.5m. The increased outflow of cash from investing activities was a result of purchasing Lakeside North Harbour Business Park.

There was an inflow of cash of £114.9m from financing activities in 2019/20. In 2018/19 this was an inflow of £17.1m. The increased cash inflow from financing activities in 2019/20 was a result of borrowing £120m to fund an early payment of employer's pension contributions of £51.7m to the Hampshire Pension Fund on 1st April 2020 in return for a discount, and capital expenditure including the purchase of Lakeside North Harbour Business Park.

In 2019/20 there was an overall increase in the City Council's cash and cash equivalents of £29.8m from £26.6m as at 31 March 2019 to £56.4m as at 31 March 2020. This was a consequence of creating the liquidity required to pay the Hampshire Pension Fund £51.7m on 1st April 2020.

The Collection Fund

This statement shows the transactions of the City Council as the billing authority in relation to the collection of Council Tax and Business Rates from taxpayers and the distribution of council tax and business rates to local authorities.

The Collection Fund is intended to break-even but is dependent largely on the robustness of the estimates of the amount of Council Tax and Business Rates due and that will be collected. When the Budget was revised in February 2020 it was anticipated that there would be a £0.6m surplus on Council Tax and a £1.2m surplus on Business Rates, i.e. the fund would have a total surplus of £1.9m. The Budget for 2019/20 was prepared on this basis i.e. that there would be a withdrawal of this surplus of £1.9m during 2020/21.

Council Tax

There was an unplanned decrease in the Collection Fund balance relating to Council Tax of £0.2m (i.e. the budgeted surplus of £0.6m less the actual surplus of £0.4m). The decline in the outturn of £0.2m is mostly attributable to an increase in the provision for bad debts as a result of the COVID-19 epidemic.

The City Council administers Council Tax for Portsmouth and this includes collecting Council Tax on behalf of the City Council, the Police Authority and the Hampshire Fire and Rescue Authority, so any surplus or deficit on the fund is shared with them.

75% Business Rate Retention Pilot

The City Council became a 100% Business Rate Pilot in 2018/19 in a pooled arrangement with the Isle of Wight and Southampton City Councils. The arrangement is one where both risks and rewards must be shared across all authorities. The scheme was intended to reduce volatility in the income from Business rates as well as maximise the incentive to grow the Business rate base.

In 2019/20 this arrangement became a 75% Business Rate Retention Pilot following a change in Government policy. Under this arrangement Business Rates growth was distributed as follows:

- 49% retained by Portsmouth City Council
- 1% retained by Hampshire Fire and Rescue Authority
- 25% pooled with the Isle of Wight and Southampton City Councils
- 25% to the Government

The 75% Business Rate Retention Pilot ended on 31st March 2020.

Business Rates

The unplanned increase in the balance relating to Business Rates was £0.7m (i.e. the actual surplus of £1.9m less the budgeted surplus of £1.2m). The improvement on outturn of £0.7m is attributable to a lower than anticipated appeals provisions being required. This unplanned increase in the balance relating to Business Rates will be distributed under the pooling arrangement.

The Housing Revenue Account (HRA)

Overall the HRA made a deficit of £10.2m in 2019/20. This represents a major improvement compared with 2018/19 (£26.4m deficit) of £16.2m.

The reduction in the HRA deficit was primarily caused by a downward revaluation of Horatia and Leamington Houses in 2018/19 following the discovery of structural problems and the subsequent decanting of these buildings.

Whilst the HRA made a £10.2m deficit, the accounting arrangements for local authorities are such that many of the charges including downward revaluation 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. The combination of all of those adjustments allowed under statute has reduced the £10.2m deficit to £1.5m. This £1.5m decrease in HRA General Balances represents the excess of expenditure over income in 2019/20.

The £1.5m deficit on the HRA after statutory adjustments compares to a revised estimate for a deficit of £0.9m. Therefore the HRA overspent by £0.6m in 2019/20.

Impact of COVID-19

The COVID-19 pandemic will have a significant financial impact on the Council, its scale is uncertain but has the potential to be substantial and de-stabilise the Council's financial resilience. Some Government funding has been announced to fund additional Council costs and losses, but the extent to which this will mitigate the financial impact also remains uncertain.

It is currently thought that COVID-19 will result in additional expenditure (particularly in social care) of £12m; planned budget savings of £3m possibly not being achieved; and lost income (particularly from port dues, parking, commercial rents, and local taxation) of £17m. The Council has so far been awarded government grants of £14m, leaving a potential shortfall of £18m, although this is still uncertain. Options available to the Council include:

- The 2020/21 budget included a corporate contingency provision of £10.3m. Commitments against the corporate contingency provision could be reviewed with a view to removing those that are not necessary for service or economic recovery.
- The Medium Term Resource Strategy Reserve has a balance of £21.3m and some of this could be used to make up the shortfall. However, this would reduce the City Council's capacity to fund future spend to save schemes to facilitate efficiencies.
- Reviewing the capital programme with a view to placing any schemes funded from non-ring fenced funding on hold unless they are business critical or necessary for service or economic recovery. The City Council's Earmarked Reserve for Capital Purposes has a balance of £41.6m, some of which could be released for other purposes following a review of the capital programme.

The Council has been operating in a business critical setting, concentrating on providing critical and essential services. This is likely to have delayed the delivery of efficiency savings and transformation plans.

The economic recession following the COVID-19 pandemic also has the potential to bring about material changes to the value of the City Council's assets and liabilities. This is particularly likely to lead to a reduction in the value of the City Council's housing stock, land and investment properties although the extent of the likely downward revaluations is not currently known. The value of debtor balances will fall if further provision against bad debts is required. The pension liability will increase if the value of pension fund assets is reduced by the recession.

The City Council's focus on providing business critical and essential services, together with social distancing measures, may cause slippage in the capital programme, although some capital schemes to improve staff connectivity whilst working from home have been accelerated. If there is overall slippage in the capital programme, this could result in the City Council having more cash and consequently investments and investment income in the short term. However, this might be outweighed by additional net expenditure on revenue budgets.

Some Government grants including those to mitigate the effects of measures to control COVID-19 on the economy have been paid in advance. The Council also borrowed £60m to finance future capital expenditure in the first quarter of 2020/21. This should ensure that the Council has sufficient cash to last well into 2020/21. In the event that the Council did run short of cash it would be able to borrow as its debt at 30th June 2020 of £794.5m is well within its authorised limit for external debt for 2020/21 of £882.9m.

Conclusion

In 2019/20 the City Council's general reserves (excluding schools) remained at £23m with the City Council's income matching its expenditure. This is in line with the City Council's revised budget.

The surplus on the Collection Fund in respect of Council Tax of £0.4m is £0.2m less than the anticipated surplus of £0.6m reflected within the budget. The Collection Fund made an unplanned surplus in respect of Business Rates of £0.7m although it is not currently known how much of this will accrue to Portsmouth under the pooling arrangement. As the Council's actual deficit was in line with its revised budget and the Collection Fund made a larger surplus than the revised budget, this represents an overall improvement in the City Council's overall medium term financial position compared with the revised budget.

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

Although the effects of COVID-19 poses a challenge to the City Council's financial resilience, the City Council entered the crisis in a strong financial position and has some scope to be flexible and adapt to get through the crisis.



David Williams

Chief Executive



Chris Ward

Director of Finance and Resources (Section 151 Officer)

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 Director of Finance & Resources (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 Director of Finance & Resources (Section 151 Officer)

The Director of Finance & Resources (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 Director of Finance & Resources (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 Director of Finance & Resources (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 2020.

Signed



Chris Ward

Director of Finance and Resources (Section 151 Officer)

Expenditure & Funding Analysis

While the Expenditure and Funding Analysis (EFA) is not a financial statement, it demonstrates to council tax payers how the funding available to the City Council (i.e. Government Grants, rents, Council Tax and Business Rates) for the year has been used in providing services in comparison with those resources consumed or earned by the City Council in accordance with generally accepted accounting practices. The EFA also shows how this expenditure is allocated for decision making purposes between the City Council's portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (page 41).

2018/19 (Restated)	Net Expenditure chargeable to the General Fund and HRA	Other Movements	Adjusted Net Expenditure chargeable to the General Fund and HRA	Adjustments between Accounting & Funding Basis (Note 7)	Net (Income) or Expenditure in the Comprehensive Income & Expenditure Statement
	£000	£000	£000	£000	£000
Portfolios:					
Children & Families	32,394	-	32,394	1,569	33,963
Community Safety	1,932	-	1,932	256	2,188
Culture & City Development	4,609	-	4,609	4,195	8,804
Education	3,639	-	3,639	12,418	16,057
Environment & Climate Change	11,708	-	11,708	1,867	13,575
Governance & Audit & Standards	-	-	-	-	-
Health, Wellbeing & Social Care	40,985	-	40,985	452	41,437
Housing	5,006	113	5,119	3,022	8,141
Leader	(15,687)	11,901	(3,786)	467	(3,319)
Licensing	(198)	-	(198)	48	(150)
Planning, Regeneration & Economic Development	-	-	-	-	-
Port	(7,229)	210	(7,019)	3,590	(3,429)
Resources	16,743	-	16,743	3,636	20,379
Traffic & Transportation	14,856	-	14,856	4,925	19,781
	108,758	12,224	120,982	36,445	157,427
Non-portfolio - HRA	(1,600)	-	(1,600)	25,193	23,593
Non-portfolio - Other	34,555	-	34,555	(13,246)	21,309
Net Cost of Services	141,713	12,224	153,937	48,392	202,329
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	(1,220)	-	(1,220)	1,828	608
Financing & Investment Income & Expenditure	21,887	(12,224)	9,663	9,290	18,953
Taxation & Non-specific Grant Income & Expenditure	(176,324)	-	(176,324)	(27,904)	(204,228)
	(155,657)	(12,224)	(167,881)	(16,786)	(184,667)
(Surplus)/Deficit on Provision of Services	(13,944)	-	(13,944)	31,606	17,662

Note 1 - The other movements column includes investment property and trading income reported internally in Portfolios, which is required by the Code to be included in Financing and Investment Income and Expenditure.

Note 2 - The 2018/19 figures have been restated due to a re-organisation of the City Council's portfolios (see Note 5).

Analysis of Net Expenditure chargeable to the General Fund and HRA between the General Fund and HRA Balances:

2018/19	General Fund and Earmarked Reserves	HRA Reserves	Total
	£000	£000	£000
Opening balances at 1st April	(177,397)	(26,234)	(203,631)
Plus net surplus on in year balance	(17,838)	3,894	(13,944)
Closing balances at 31st March	(195,235)	(22,340)	(217,575)

2019/20	Net Expenditure chargeable to the General Fund and HRA	Other Movements	Adjusted Net Expenditure chargeable to the General Fund and HRA	Adjustments between Accounting & Funding Basis (Note 7)	Net (Income) or Expenditure in the Comprehensive Income & Expenditure Statement
	£000	£000	£000	£000	£000
Portfolios:					
Children & Families	31,505	-	31,505	2,134	33,639
Community Safety	1,930	-	1,930	375	2,305
Culture & City Development	6,598	-	6,598	4,738	11,336
Education	5,995	-	5,995	12,068	18,063
Environment & Climate Change	12,484	-	12,484	1,677	14,161
Health, Wellbeing & Social Care	48,447	-	48,447	4,187	52,634
Housing	4,766	150	4,916	2,226	7,142
Leader	(22,149)	14,345	(7,804)	7,937	133
Licensing	(240)	-	(240)	67	(173)
Port	(7,476)	204	(7,272)	4,865	(2,407)
Resources	18,160	-	18,160	5,025	23,185
Traffic & Transportation	13,835	-	13,835	5,391	19,226
	113,855	14,699	128,554	50,690	179,244
Non-portfolio - HRA	(3,567)	-	(3,567)	11,335	7,768
Non-portfolio - Other	27,078	-	27,078	(19,724)	7,354
Net Cost of Services	137,366	14,699	152,065	42,301	194,366
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	(173)	-	(173)	(653)	(826)
Financing & Investment Income & Expenditure	21,652	(14,699)	6,953	8,515	15,468
Taxation & Non-specific Grant Income & Expenditure	(167,707)	-	(167,707)	(27,159)	(194,866)
	(146,228)	(14,699)	(160,927)	(19,297)	(180,224)
(Surplus)/Deficit on Provision of Services	(8,862)	-	(8,862)	23,004	14,142

Note 1 - The other movements column includes investment property and trading income reported internally in Portfolios, which is required by the Code to be included in Financing & Investment Income & Expenditure.

Analysis of Net Expenditure chargeable to the General Fund and HRA between the General Fund and HRA Balances:

2019/20	General Fund and Earmarked Reserves	HRA Reserves	Total
	£000	£000	£000
Opening balances at 1st April	(195,235)	(22,340)	(217,575)
Plus net surplus on in year balance	(10,704)	1,842	(8,862)
Closing balances at 31st March	(205,939)	(20,498)	(226,437)

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the City Council, 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 City Council’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 9. The Net Increase / Decrease before Transfers to Earmarked Reserve line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the City Council.

	General Fund Balance (See note A below) £000	Earmarked General Fund Reserves £000	Housing Revenue Account Balance £000	Housing Revenue Account Capital Reserve £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserve £000
Balance at 31 March 2018 carried forward	(24,085)	(153,312)	(25,119)	(1,119)	(1,840)	(13,421)	(53,157)	(272,053)	(558,197)	(830,250)
Movement in reserves during 2018/19										
Deficit or (Surplus) on the provision of services	(8,732)	-	26,395	-	-	-	-	17,663	-	17,663
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(58,711)	(58,711)
Total Comprehensive Expenditure and Income	(8,732)	-	26,395	-	-	-	-	17,663	(58,711)	(41,048)
Adjustments between accounting basis & funding basis under regulations (see note 9)	(9,106)	-	(22,501)	-	(9,170)	(2,387)	(1,741)	(44,904)	44,904	-
Net Increase / Decrease before Transfers to Earmarked Reserves	(17,838)	-	3,894	-	(9,170)	(2,387)	(1,741)	(27,241)	(13,807)	(41,048)
Transfers (to) / from Earmarked Reserves (See Note 10)	14,387	(14,387)	(356)	356	-	-	-	-	-	-
Increase / Decrease in Year	(3,452)	(14,387)	3,539	356	(9,170)	(2,387)	(1,741)	(27,241)	(13,807)	(41,048)
Balance at 31 March 2019 carried forward	(27,537)	(167,699)	(21,580)	(763)	(11,010)	(15,808)	(54,898)	(299,294)	(572,004)	(871,298)
Movement in reserves during 2019/20										
Deficit or (Surplus) on the provision of services	3,902	-	10,240	-	-	-	-	14,142	-	14,142
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	22,552	22,552
Total Comprehensive Expenditure and Income	3,902	-	10,240	-	-	-	-	14,142	22,552	36,694
Adjustments between accounting basis & funding basis under regulations (see note 9)	(14,605)	-	(8,396)	-	(8,165)	(1,649)	(3,105)	(35,920)	35,920	(0)
Net Increase / Decrease before Transfers to Earmarked Reserves	(10,703)	-	1,844	-	(8,165)	(1,649)	(3,105)	(21,778)	58,472	36,694
Transfers (to) / from Earmarked Reserves (See Note 10)	11,126	(11,126)	(357)	357	-	-	-	-	-	-
Increase / Decrease in Year	423	(11,126)	1,487	357	(8,165)	(1,649)	(3,105)	(21,778)	58,472	36,694
Balance at 31 March 2020 carried forward	(27,114)	(178,825)	(20,093)	(406)	(19,175)	(17,457)	(58,002)	(321,072)	(513,532)	(834,604)

Note A - £4.1m of the General Fund Balance at 31st March 2020 (£4.5m at 31st March 2019) represents school’s balances which can only be spent by schools under devolved budgetary arrangements.

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 both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2018/19 (Restated)				2019/20		
Gross Expenditure	Gross Income	Net Expenditure	Notes	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
38,697	(4,735)	33,962	Children & Families	41,738	(8,099)	33,639
3,175	(988)	2,187	Community Safety	3,952	(1,647)	2,305
17,346	(8,541)	8,805	Culture & City Development	20,948	(9,612)	11,336
106,155	(90,098)	16,057	Education	111,600	(93,537)	18,063
14,593	(1,018)	13,575	Environment & Climate Change	15,467	(1,306)	14,161
93,196	(51,759)	41,437	Health, Wellbeing & Social Care	101,846	(49,212)	52,634
16,799	(8,658)	8,141	Housing	16,516	(9,374)	7,142
(1,557)	(1,762)	(3,319)	Leader	1,953	(1,820)	133
706	(857)	(151)	Licensing	723	(896)	(173)
12,945	(16,372)	(3,427)	Port	14,045	(16,452)	(2,407)
127,843	(107,464)	20,379	Resources	116,681	(93,496)	23,185
31,717	(11,936)	19,781	Traffic & Transportation	35,939	(16,713)	19,226
461,615	(304,188)	157,427		481,408	(302,164)	179,244
104,083	(80,490)	23,593	Non-portfolio - HRA	90,972	(83,204)	7,768
27,808	(6,499)	21,309	Non-portfolio - Other	21,392	(14,038)	7,354
593,506	(391,177)	202,329	Cost of Services	593,772	(399,406)	194,366
3,457	(2,849)	608	Other Operating Expenditure	2,195	(3,022)	(827)
42,414	(23,460)	18,954	Financing & Investment Income & Expenditure	46,163	(30,694)	15,469
0	(204,229)	(204,229)	Taxation & Non-specific Grant Income & Expenditure	-	(194,866)	(194,866)
639,377	(621,715)	17,662	(Surplus)/Deficit on Provision of Services	642,130	(627,988)	14,142
<i>Items that will not be reclassified to the (Surplus)/Deficit on Provision of Services</i>						
		(22,612)	(Surplus)/Deficit on Revaluation of PPE Assets			(6,286)
		(36,099)	Remeasurement of Net Defined Benefit Liability			28,773
		0	Surplus or Deficit from Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income			65
		(58,711)	Other Comprehensive Income and Expenditure			22,552
		(41,049)	Total Comprehensive Income and Expenditure			36,694

Note 1 - The Comprehensive Income & Expenditure Statement has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting 2019/20 (the Code). The Comprehensive Income and Expenditure Statement presents the costs of services in a manner that is based on how management reports to Councillors. The Expenditure and Funding analysis (and associated notes) reconcile the amounts reported to management as chargeable to the general fund under statute with the amounts presented in the Comprehensive Income and Expenditure Statement under proper accounting practices.

Note 2 - For more information on the restated 2018/19 figures see prior period adjustment note at Note 5.

Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the City Council. The net assets of the City Council (assets less liabilities) are matched by the reserves held by the City Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those that the City Council 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 are those that the City Council 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".

31 March 2019 £000	Notes	31 March 2020 £000
1,284,679 Property, Plant & Equipment	12	1,439,376
74,959 Heritage Assets	15	75,279
182,167 Investment Property	16	187,906
1,066 Intangible Assets		3,732
123,107 Long Term Investments		57,071
27,388 Long Term Debtors	19	27,989
1,693,366 Long Term Assets		1,791,352
275,113 Short Term Investments		288,948
394 Inventories		465
54,752 Short Term Debtors	20	52,509
26,620 Cash & Cash Equivalents	21	56,438
356,879 Current Assets		398,360
(13,125) Short Term Borrowing		(44,536)
(54,907) Short Term Creditors	22	(62,390)
(3,643) Other Short Term Liabilities		(5,095)
(39,954) Capital Grant Receipts in Advance	33	(55,257)
(5,206) Provisions	23	(2,663)
(116,835) Current Liabilities		(169,941)
(89,901) Other Long Term Liabilities	24	(85,128)
(12,536) Provisions	23	(9,843)
(580,525) Long Term Borrowing		(661,206)
(377,796) Pension Liability	39	(427,445)
(1,354) Capital Grant Receipts in Advance	33	(1,546)
(1,062,112) Long Term Liabilities		(1,185,168)
871,298 Net Assets		834,604
(299,294) Usable Reserves		(321,072)
(572,004) Unusable Reserves	25	(513,532)
(871,298)		(834,604)

Chris Ward



Director of Finance and Resources (Section 151 Officer)

Cash Flow Statement

The Cash Flow statement shows the changes in cash and cash equivalents of the City Council during the reporting period. The statement shows how the City Council 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 City Council are funded by way of taxation and grant income or from the recipients of services provided by the City Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the City Council'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 City Council.

2018/19 £000	Notes	2019/20 £000
(17,662) Net surplus or (deficit) on the provision of services		(14,142)
Adjustment to surplus or deficit on the provision of services for noncash 99,266 movements	26a	90,165
Adjust for items included in the net surplus or deficit on the provision of (45,844) services that are investing and financing activities	26a	(60,342)
35,760 Net Cash flows from operating activities		15,681
(48,471) Net Cash flows from Investing Activities	26b	(100,749)
17,098 Net Cash flows from Financing Activities	26b	114,886
4,387 Net increase or decrease in cash and cash equivalents		29,818
22,233 Cash and cash equivalents at the beginning of the reporting period		26,620
26,620 Cash and cash equivalents at the end of the reporting period	21	56,438

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 2019/20 financial year and its financial position at 31 March 2020.

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 Reporting 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.

Going Concern

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.

The Council has carried out a detailed assessment of the likely impact of COVID-19 on its financial position and performance during 2020/21 and beyond. This included consideration of the following:-

- Loss of income on a service by service basis, due to temporary closures, reduction in demand, and increased collection losses.
- Additional expenditure on a service by service basis, e.g. provision of new and expanded services in response to the crisis (such as additional costs relating to temporary accommodation for the homeless), and additional costs associated with changes to working practices (such as personal; protective equipment).
- The impact on the Council's capital programme, e.g. delays caused by government restrictions, and whether there is a need to rephase work for other reasons.
- The impact on the Council's subsidiaries and joint ventures.
- The impact of all of the above on the Council's cash flow and treasury management, including availability of liquid cash (as at 14th July 2020 the Council had around £294m in cash and on-demand/short notice deposits), impact on investment returns, and availability of external borrowing if required.
- The estimated overall impact on the Council's General Fund and Housing Revenue Account reserves.

This review has highlighted that COVID-19 poses a significant financial challenge for the Council, as it will for all local authorities.

The net total impact of COVID-19 on the General Reserves is currently estimated to be a reduction of £18m, the vast majority of which is expected to crystallise within 2020/21.

By way of context, the General Fund balance (excluding school balances) as at 31 March 2020 was £27.1m. The Council's prudent minimum balance on the General Fund is £8.0m. In addition, the Council has Earmarked General Fund Reserves of £178.8m.

It is therefore noted that there is significant headroom within the General Fund to absorb the estimated financial impact of COVID-19 in the short to medium-term. Furthermore, the Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future.

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 being reported. Accruals have been made for all known items of income and expenditure exceeding £1,000 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 City Council's financial performance.

Prior Period Adjustments, Changes in Accounting Policies and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct an error.

Changes to accounting 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 City Council's financial position or financial performance. Where a 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.

Fair Value Measurement

The City Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) In the principal market for the asset or liability, or
- b) In the absence of a principal market, in the most advantageous market for the asset or liability.

The City Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the City Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The City Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the City Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

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 will capitalise borrowing costs incurred while assets are under construction when the costs exceed £3m and the asset is not completed within a single financial year. Provision will be made for the repayment of these costs under the City Council's minimum revenue provision (MRP) for the repayment of debt policy.

Assets constructed by the City Council, including enhancements to existing assets, are initially included in Assets Under Construction before being transferred to the appropriate asset category upon completion. Assets purchased in an operational state without requiring construction or installation are not initially included in Assets Under Construction but are included under the appropriate asset category for operational assets upon completion of their purchase.

The City Council has a de minimis policy of not recognising assets with a value of less than £20,000 on its balance sheet. New assets worth less than £20,000 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.

Historic cost is used as a proxy for market value for **vehicles and plant**.

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.

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 services
- Revaluation and impairment losses on assets used by services 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 City Council 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 City Council 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 included within the Movement in Reserves Statement for the difference between the two.

The City Council is required to raise Housing Revenue Account (HRA) rents to fund depreciation on dwellings. HRA depreciation is credited to the Major Repairs Reserve in the Movement in Reserves Statement. The Major Repairs Reserve can only be used to fund HRA capital expenditure or the repayment of HRA borrowing.

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.

It is not the City Council's policy to write out accumulated impairments when assets are revalued.

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 City 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 year following the year of acquisition to the year of disposal.

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

b) Museum Collections

The museum collections are reported in the Balance Sheet at their current values determined by external valuers and staff in the museum's service.

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

c) Archives

The archive collections are reported in the Balance Sheet on current values determined by staff in the museum's service.

The archive collections are deemed to have indeterminate lives and a high residual value; hence the City Council 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 City 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 how a grant must be used and require repayment of the grant if the conditions are not met.

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.

Community Infrastructure Levy

The City Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consents. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure contracts and support development of the area.

CIL is received without outstanding conditions. It is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy government grants and contributions set out above. CIL charges will largely be used to fund capital expenditure. However, a portion of the charges will be used to fund revenue expenditure.

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 City 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 City 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.

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 City 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 City 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 City Council is the lessee, and rental income where the City 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

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

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 City Council. 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, 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 City Council participates in are provided in notes 39 and 40.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the City Council. 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 City Council's PFI schemes involved up front capital payments by the City Council. As the City 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 City Council at the end of the contracts for no additional charge, the City 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 City Council.

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

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

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

Financial assets

Financial assets are classified based on the classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The City Council has financial assets measured at amortised cost, FVPL and FVOCI.

Financial Assets Measured at Amortised Cost

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.

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.

Expected Credit Loss Model

The authority recognises expected losses on all of its financial assets held at amortised cost (or where relevant (FVOCI), either on a 12 month or lifetime basis. The expected credit loss model applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

These financial assets consist of structured notes where the value of the note is determined by stock market indices. Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes party to the contractual provision of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets is professionally determined by Barclays Bank.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

The Council holds equity instruments in Portico Shipping Limited (formerly MMD (Shipping Services) Limited), Hampshire Community Bank Holding Limited, and Victory Energy Supply Limited. These equity instruments are not held for trading and the City Council has elected to account for these instruments as "fair value through other comprehensive income" rather than "fair value through profit or loss". This means that gains and losses in the fair value of these instruments will not be debited or credited to General Fund balances until the instruments are sold.

Maintained Schools

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

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

Academy schools receive their funding through the Government and the City 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 City Council's accounts.

Some maintained schools have applied to convert to academies. The City 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 City 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 City Council is the accountable body for nearly all the funding of the Solent LEP, including the Local Growth Deal. The Solent LEP will either grant or loan 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 City Council has a veto on all funding and bears any credit risk associated with lending by the LEP. As the City 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 City 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 City Council as a whole. The HRA is charged interest at the City 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 City Council's investments.

2. Accounting Standards Issued but not yet Adopted

The following accounting standards have been issued and will be adopted by the 2019/20 Code of Practice on Local Authority Accounting:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

It is anticipated that amendments above will not have a material impact on the information provided in the financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying its accounting policies, the City Council 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 City Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the City Council might be impaired as a result of the need to close facilities and reduce levels of service provision.
- The City Council 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 2020 was £128.8m (£125.7m at 31 March 2019). The City Council also provides its Waste Disposal service through Project Integra which is a partnership with Hampshire County Council and Southampton City Council. The three Councils are deemed to control services which have been outsourced by Project Integra and to control the value of the assets at the end of the agreements. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the assets, including Portsmouth City Council's share of the waste disposal assets, (valued at £11.6m as at 31 March 2020 (£12.5m at 31 March 2019)) are recognised as Property, Plant and Equipment on the City Council's balance sheet.
- The City 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 City 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 City 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 City 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)
 - 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.

- The City Council has made judgements about whether it controls voluntary aided and voluntary controlled schools. The City Council does not own these buildings and the Governing Bodies are responsible for capital works. The City 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. Therefore, in light of these factors and guidance in CIPFA's Technical Note 40(01), the City Council does not consider that it controls these schools and has not included them on its balance sheet.

4. Assumptions made About the Future and Other Sources of Estimated Uncertainty

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Fair Value Measurements</p>	<p>When the fair value of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the City Council's assets and liabilities.</p> <p>Where level 1 inputs are not available, the City Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value. For example; for investment properties, Royal Institute of Chartered Surveyors (RICS) qualified valuers.</p>	<p>The Council has financial instrument liabilities with a fair value of £1,284.8m and financial instrument assets of £420.2m. Lakeside North Harbour Business Park was valued at £138.0m at 31st March 2020, and the investment property portfolio was valued at £183.2m.</p> <p>The City Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties. The significant unobservable inputs used in the measurement of fair value include; management assumptions regarding rent growth, vacancy levels and discount rates (adjusted for regional variations). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties.</p>
<p>Pensions Liability</p>	<p>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 and expected returns on pension fund assets. COVID-19 may affect future returns on pension fund assets, although it is not yet clear what the extent of this will be. A firm of consulting actuaries is engaged to provide the City Council with expert advice about the assumptions to be applied.</p>	<p>The City Council's net pension liability is £427m. The effects on the net pension liability of changes in individual assumptions can be measured. However; the assumptions interact in complex ways.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	<p>The City Council's balance sheet contains significant debtor balances. An allowance is made for impairments. However in the current economic climate it is not certain that the allowance is sufficient. For example, in calculating the impairment for doubtful debts for sundry debtors the City Council had a balance in the accounts receivable system of £16.8m, of which £3.9m (23%) was beyond 60 days past its due date. COVID-19 and its detrimental effect on the economy may cause collection rates to deteriorate in future.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.9m to set aside as an allowance for sundry debtors alone.</p>
Non Domestic Rates	<p>In 2019/20 the City Council is in a business rate pool with the Isle of Wight and Southampton City Councils which retained 75% of the non-domestic rates collected. The amounts 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.</p> <p>Owing to the 2017 revaluation a new set of appeals are expected across the rating list. In the absence of more meaningful information, we have used the 4.7% figure that Central Government have assumed will be the national decline in rateable values from appeals.</p> <p>On this basis the Council has made a provision of £10.9m in 2019/20.</p>	<p>The effects on non-domestic rate income of changes in individual assumptions can be measured. However, the assumptions interact with each other.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Inseparable Service Concessions Including Private Finance Initiative (PFI) Schemes</p>	<p>The City Council has two inseparable service concession arrangements to provide highways maintenance and waste collection services. Under these arrangements the City Council paid £26.6m in 2019/20 for highways maintenance and £7.5m waste disposal. These arrangements gave rise to estimated liabilities at 31 March 2020 of £42.8m for highways maintenance and £5.2m for waste disposal. The payments made by the City Council under these arrangements cover operating and maintenance costs, lifecycle replacement costs, and the interest and principal repayment costs associated with the provision of assets. Under these arrangements the City Council does not know how much money has been spent on each of these elements and consequently they have to be estimated.</p>	<p>Although the overall costs of these arrangements are known the effect of these arrangements on the City Council's surplus on the provision of services, its capital investment, its long term liabilities, its reserves and its net assets are all estimated.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Valuation of Land and Buildings</p>	<p>The outbreak of COVID-19 declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets.</p> <p>Market activity is being impacted in many sectors. As at the valuation date, the valuers have been able to attach less weight to previous market experience for comparison purposes to inform their opinions of value.</p> <p>Valuations have therefore been reported on the basis of "material valuation uncertainty". Consequently, less certainty - and a higher degree of caution - should be attached - to the valuation of investment properties</p>	<p>This will particularly affect major assets whose value is largely driven by market value including Lakeside North Harbour Business Park (£138.0m), the investment property portfolio (£183.2m), and the Council's dwelling stock (£620.3m).</p> <p>The inclusion of the "material valuation uncertainty" declaration does not mean that the valuations cannot be relied upon, but rather that in the current extraordinary circumstances, less certainty can be attached to the valuations than would otherwise be the case.</p> <p>If the COVID-19 crisis is prolonged, then the crisis will significantly affect the value of these assets over the next 12 months.</p>

5. Prior Period Adjustments

(a) Restatement of Income and Expenditure Comparators due to Change in Reporting Structure

The Expenditure & Funding Analysis (EFA), the Comprehensive Income & Expenditure Statement (CIES) and their supporting notes, are compiled based on the City Council's reporting structure at the 31st March. This structure reflects the member (councillor) portfolios in place at that point in time.

In May 2019, the City Council's members decided to change the portfolio structure of the City Council both in terms of which portfolios would continue going forward, and which activities/services would be included in each of the respective portfolios. The combined affect of this change; is that two portfolios were discontinued (Governance & Audit & Standards, and Planning, Regeneration & Economic Development), one portfolio was split into two (Environment and Community Safety), and a number of other service responsibilities were moved between the remaining portolios. These changes mean that under the new portfolio structure most portfolio income and expenditure lines for 2018/19 change, some materially and many others significantly.

This restructuring has however had no change to the overall net cost of services, Surplus/Deficit on Provision of Services, general fund balances, or the balance sheet.

The financial statements and discoures impacted by the restructuring are as follows:

- Expenditure & Funding Analysis
- Comprehensive Income & Expenditure Statement
- Notes to the Expenditure and Funding Analysis - Adjustments from General Fund/HRA to arrive at CIES amounts
- Notes to the Expenditure and Funding Analysis - Segmental Income

The following notes show the result of the changes, including comparing the before and after position.

(a) Expenditure & Funding Analysis Restatement:

	Original Net Expenditure chargeable to the General Fund and HRA £000	Revised Net Expenditure chargeable to the General Fund and HRA £000	Movement Net Expenditure chargeable to the General Fund and HRA £000	Original Other Movements £000	Revised Other Movements £000	Movement Other Movements £000	Original Adjusted Net Expenditure chargeable to the General Fund and HRA £000	Revised Adjusted Net Expenditure chargeable to the General Fund and HRA £000	Movement Adjusted Net Expenditure chargeable to the General Fund and HRA £000	Original Adjustments between Accounting & Funding Basis (Note 7) £000	Revised Adjustments between Accounting & Funding Basis (Note 7) £000	Movement Adjustments between Accounting & Funding Basis (Note 7) £000	Original Net (Income) or Expenditure in the Comprehensive Income & Expenditure Statement £000	Revised Net (Income) or Expenditure in the Comprehensive Income & Expenditure Statement £000	Movement Net (Income) or Expenditure in the Comprehensive Income & Expenditure Statement £000
Children & Families	32,415	32,394	(21)	-	-	-	32,415	32,394	(21)	1,735	1,569	(166)	34,150	33,963	(187)
Community Safety	-	1,932	1,932	-	-	-	-	1,932	1,932	-	256	256	-	2,188	2,188
Culture & City Development	4,034	4,609	575	-	-	-	4,034	4,609	575	3,950	4,196	246	7,984	8,805	821
Education	3,419	3,639	220	-	-	-	3,419	3,639	220	12,137	12,418	281	15,556	16,057	501
Environment & Climate Change	13,639	11,708	(1,931)	-	-	-	13,639	11,708	(1,931)	2,123	1,867	(256)	15,762	13,575	(2,187)
Governance & Audit & Standards	328	-	(328)	-	-	-	328	-	(328)	62	-	(62)	380	-	(380)
Health, Wellbeing & Social Care	40,985	40,985	-	-	-	-	40,985	40,985	-	451	452	1	41,437	41,437	-
Housing	2,672	5,006	2,334	113	113	-	2,785	5,119	2,334	911	3,022	2,111	3,696	8,141	4,445
Leadership	154	(15,687)	(15,841)	-	-	-	154	(3,786)	(3,940)	13	466	453	167	(3,320)	(3,487)
Licensing	(198)	(198)	-	-	-	-	(198)	(198)	-	48	48	-	(150)	(150)	-
Planning, Regeneration & Economic Development	(13,933)	-	13,933	11,901	-	(11,901)	(2,032)	-	2,032	777	-	(777)	(1,255)	-	1,255
Port	(7,228)	(7,229)	(1)	210	210	-	(7,018)	(7,019)	(1)	3,590	3,590	-	(3,428)	(3,428)	-
Resources	18,483	16,743	(1,740)	-	-	-	18,483	16,743	(1,740)	5,772	3,636	(2,136)	24,255	20,379	(3,876)
Traffic & Transportation	14,138	14,856	718	-	-	-	14,138	14,856	718	4,875	4,924	49	19,013	19,780	767
	108,908	108,958	(50)	12,224	12,224	-	121,132	120,982	(150)	36,444	36,444	-	157,577	157,427	(150)
Non-portfolio - HRA	(1,600)	(1,600)	-	-	-	-	(1,600)	(1,600)	-	25,193	25,193	-	23,593	23,593	-
Non-portfolio - Other	34,555	34,555	-	-	-	-	34,555	34,555	-	(13,246)	(13,246)	-	21,309	21,309	-
Net Cost of Services	141,863	141,713	(150)	12,224	12,374	150	154,087	154,087	-	48,391	48,391	-	202,479	202,329	(150)
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Other Operating Expenditure	-1370	-1220	150	0	0	0	-1370	-1220	150	1828	1828	0	468	608	150

(b) Comprehensive Income & Expenditure Statement Restatement:

	Original		Revised		Movement		Original		Revised		Movement	
	Gross Expenditure £000	Gross Expenditure £000	Gross Expenditure £000	Gross Expenditure £000	Gross Income £000	Gross Income £000	Gross Income £000	Gross Income £000	Net Expenditure £000	Net Expenditure £000	Net Expenditure £000	Net Expenditure £000
Children & Families	38,941	38,698	(243)	(4,791)	(4,735)	56	34,150	33,963	(187)			
Community Safety	-	3,176	3,176	(988)	(988)	(988)	-	2,188	2,188			
Culture & City Development	11,668	17,346	5,678	(3,684)	(8,541)	(4,857)	7,984	8,805	821			
Education	104,381	106,155	1,774	(88,825)	(90,098)	(1,273)	15,556	16,057	501			
Environment & Climate Change	17,768	14,593	(3,175)	(2,006)	(1,018)	988	15,762	13,575	(2,187)			
Governance & Audit & Standards	1,007	-	(1,007)	(617)	-	617	390	-	(390)			
Health, Wellbeing & Social Care	93,196	93,196	-	(51,759)	(51,759)	-	41,437	41,437	-			
Housing	9,928	16,799	6,871	(6,232)	(8,658)	(2,426)	3,696	8,141	4,445			
Leader	192	(1,558)	(1,750)	(26)	(1,762)	(1,736)	166	(3,320)	(3,486)			
Licensing	706	707	1	(857)	(857)	-	(151)	(150)	1			
Planning, Regeneration & Economic Development	4,043	-	(4,043)	(5,298)	-	5,298	(1,255)	-	1,255			
Port	12,945	12,944	(1)	(16,372)	(16,372)	-	(3,427)	(3,428)	(1)			
Resources	135,890	127,843	(8,047)	(111,635)	(107,464)	4,171	24,255	20,379	(3,876)			
Traffic & Transportation	30,950	31,716	766	(11,936)	(11,936)	-	19,014	19,780	766			
	461,615	461,615	-	(304,038)	(304,188)	(150)	157,577	157,427	(150)			
Non-Portfolio - HRA	104,083	104,083	-	(80,490)	(80,490)	-	23,593	23,593	-			
Non-Portfolio - Other	27,808	27,808	-	(6,499)	(6,499)	-	21,309	21,309	-			
Cost of Services	593,506	593,506	-	(391,027)	(391,027)	-	202,479	202,329	(150)			
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:												
Other Operating Expenditure	3,457	3,457	-	2,999	2,849	150	458	608	150			

(c) Note 7 (a) - Adjustments from General Fund/HRA to arrive at CIES amounts
Restatement:

	Original Adjustments for Capital Purposes		Revised Adjustments for Capital Purposes		Movement Adjustments for Capital Purposes		Net Changes for Pension Adjustments		Revised Net Changes for Pension Adjustments		Movement Net Changes for Pension Adjustments		Original Other Differences		Revised Other Differences		Movement Other Differences		Original Total Adjustments		Revised Total Adjustments		Movement Total Adjustments	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Children & Families	292	292	292	1,347	(174)	1,521	1,347	(78)	(70)	8	1,735	1,569	(166)											
Community Safety		33	33	235	235	457	718	(6)	(12)	(12)		256	256											
Culture & City Development	3,499	3,498	(1)	718	261	2,969	3,238	(388)	(20)	(403)	(14)	4,196	246											
Education	9,557	9,583	26	3,238	269	2,969	3,238	(388)	(20)	(403)	(14)	4,196	246											
Environment & Climate Change	1,845	1,813	(32)	59	(235)	294	59	(16)	(5)	11	2,123	1,867	(256)											
Governance & Audit & Standards	10	*	(10)	*	(56)	56	*	(4)	*	4	62	*	(62)											
Health, Wellbeing & Social Care	(1,288)	(1,288)	*	1,852	*	1,852	1,852	(113)	(112)	1	451	452	1											
Housing	753	2,634	1,881	414	236	178	414	(20)	(26)	(6)	911	3,022	2,111											
Leader	6	327	321	137	129	8	137	(1)	2	3	13	466	453											
Licensing	4	4	*	45	*	45	45	(1)	(1)	*	48	48	*											
Planning, Regeneration & Economic Development	370	*	(370)	*	(420)	420	*	(13)	*	13	777	*	(777)											
Port	3,211	3,211	*	400	*	400	400	(21)	(21)	*	3,590	3,590	*											
Resources	3,319	1,471	(1,848)	2,260	(293)	2,553	2,260	(100)	(95)	5	5,772	3,636	(2,136)											
Traffic & Transportation	4,360	4,360	*	557	48	509	557	(14)	(13)	1	4,875	4,924	49											
	25,958	25,958	*	11,262	*	11,262	11,262	(776)	(776)	*	36,444	36,444	*											
Non-portfolio - HRA	24,662	24,662	*	857	*	857	857	(346)	(346)	*	25,193	25,193	*											
Non-portfolio - Other	(16,244)	(16,244)	*	6,118	*	6,118	6,118	(3,120)	(3,120)	*	(13,246)	(13,246)	*											
Net Cost of Services	34,396	34,396	*	18,237	*	18,237	18,237	(4,242)	(4,242)	*	48,391	48,391	*											
Other Income & Expenditure from the Funding Anal	(28,360)	(28,360)	*	9,762	*	9,762	9,762	1,813	1,813	*	(16,785)	(16,785)	*											
Difference between GF/HRA (surplus)/deficit and CIES (surplus)/deficit	6,036	6,036	*	27,999	*	27,999	27,999	(2,429)	(2,429)	*	31,606	31,606	*											

(d) Note 7 (b) - Segmental Income Restatement

	Original	Revised	Movement
	Income from	Income from	Income from
	Services	Services	Services
	£000	£000	£000
Children and Families	(729)	(678)	51
Community Safety	-	(494)	(494)
Culture & City Development	(6,437)	(8,233)	(1,796)
Education	(3,425)	(7,096)	(3,671)
Environment & Climate Change	(1,464)	(969)	495
Governance & Audit & Standards	(617)	-	617
Health, Wellbeing & Social Care	(27,096)	(27,096)	-
Housing	(2,059)	(4,485)	(2,426)
Leader	(21)	(17,673)	(17,652)
Licensing	(857)	(857)	-
Planning, Regeneration & Economic Development	(20,555)	-	20,555
Port	(16,581)	(16,581)	-
Resources	(13,714)	(9,543)	4,171
Traffic & Transportation	(11,506)	(11,506)	-
	(105,061)	(105,211)	(150)
Non-Portfolio:			
Housing Revenue Account	(80,489)	(80,489)	-
Other	(135)	(135)	-
	(185,685)	(185,835)	(150)

Note - The £150k shown has come from Miscellaneous Income & Expenditure in the Other Operating Expenditure line of the CIES.

6. Events after the Reporting Period

The effects of the COVID-19 pandemic on the future operations of the City Council are uncertain, but have the potential to be substantial. These include the value of the City Council's assets, particularly its investment properties and housing stock, and its net pension liability. In 2020/21 the City Council has experienced additional expenditure, particularly on social care; lost income, particularly port dues, parking charges, commercial rents and local taxation. The Government has given the Council some grants to mitigate these expenses and lost income.

The Statement of Accounts was authorised for issue by the Director of Finance & Resources (Section 151 Officer) on 30th July 2020. 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 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Notes to the Expenditure and Funding Analysis

(a) Adjustments Between Funding and Accounting Basis

While the Expenditure and Funding Analysis provides a reconciliation of the adjustments between the City Council's financial performance under the funding position and the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement, the following note highlights the material areas included in the adjustments between the accounting and funding basis column of the Expenditure and Funding Analysis.

Adjustments from GF/HRA to arrive at CIES amounts				
2018/19 (Restated)	Adjustments for Capital Purposes (1)	Net Changes for Pension Adjustments (2)	Other Differences (3)	Total Adjustments
	£000	£000	£000	£000
Portfolios:				
Children & Families	292	1,347	(70)	1,569
Community Safety	33	235	(12)	256
Culture & City Development	3,498	718	(21)	4,195
Education	9,582	3,238	(403)	12,417
Environment & Climate Change	1,813	59	(5)	1,867
Governance & Audit & Standards	0	0	0	0
Health Wellbeing & Social Care	(1,288)	1,852	(112)	452
Housing	2,635	414	(27)	3,022
Leader	327	137	3	467
Licensing	4	45	(1)	48
Planning, Regeneration & Economic Development	0	0	0	0
Port	3,211	400	(21)	3,590
Resources	1,471	2,260	(95)	3,636
Traffic & Transportation	4,380	557	(12)	4,925
	25,958	11,262	(776)	36,444
Non-portfolio - HRA	24,682	857	(346)	25,193
Non-portfolio - Other	(16,244)	6,118	(3,120)	(13,246)
Net Cost of Services	34,396	18,237	(4,242)	48,391
Other Income & Expenditure from the Funding Analysis	(28,360)	9,762	1,813	(16,785)
Difference between GF/HRA (surplus)/deficit and CIES (surplus)/deficit	6,036	27,999	(2,429)	31,606

Adjustments from GF/HRA to arrive at CIES amounts				
2019/20	Adjustments for Capital Purposes (1)	Net Changes for Pension Adjustments (2)	Other Differences (3)	Total Adjustments
	£000	£000	£000	£000
Portfolios:				
Children & Families	58	2,048	28	2,134
Community Safety	36	335	4	375
Culture & City Development	3,719	1,004	15	4,738
Education	7,230	4,717	121	12,068
Environment & Climate Change	1,583	89	5	1,677
Health, Wellbeing & Social Care	1,365	2,797	25	4,187
Housing	1,559	648	19	2,226
Leader	7,694	244	(1)	7,937
Licensing	4	65	(2)	67
Port	4,201	687	(23)	4,865
Resources	1,383	3,597	45	5,025
Traffic & Transportation	4,530	859	2	5,391
	33,362	17,090	238	50,690
Non-portfolio - HRA	8,757	1,687	891	11,335
Non-portfolio - Other	(15,200)	(6,687)	2,163	(19,724)
Net Cost of Services	26,919	12,090	3,292	42,301
Other Income & Expenditure from the Funding Analysis	(29,011)	8,787	927	(19,297)
Difference between GF/HRA (surplus)/deficit and CIES (surplus)/deficit	(2,092)	20,877	4,219	23,004

Note (1) - Adjustments for Capital Purposes:

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices

Note (2) - Net Change for Pensions Adjustments:

This column shows the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the City Council as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure -- the net interest on the defined benefit liability is charged to the CIES.

Note (3) - Other Differences:

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and Non-Domestic Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in CIPFA's Code of Practice on Local Authority Accounting. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund

(b) Segmental Income

Income received from external customers on a segmental basis is analysed below:

2018/19 (Restated)		2019/20
Income from Services £000		Income from Services £000
	Portfolios:	
(678)	Children and Families	(1,544)
(494)	Community Safety	(834)
(8,232)	Culture & City Development	(9,307)
(7,096)	Education	(7,004)
(969)	Environment & Climate Change	(1,225)
(27,096)	Health, Wellbeing & Social Care	(23,545)
(4,485)	Housing	(5,079)
(17,673)	Leader	(25,566)
(857)	Licensing	(896)
(16,581)	Port	(16,608)
(9,543)	Resources	(10,093)
(11,506)	Traffic & Transportation	(12,401)
(105,210)		(114,102)
(80,489)	Housing Revenue Account	(83,203)
(135)	Other	(99)
(185,834)		(197,404)

Note - This disclosure only shows externally earned income for each portfolio as included in the net expenditure figures in the Expenditure and Funding Analysis and CIES. The total will therefore not agree to the entry in the EFA, CIES or Expenditure and Income Funded by Nature as the gross income or entry for fees, charges and other income represent either all income received in line with the IFRS accounting standards or only a segment of income received.

8. Expenditure and Income Analysed by Nature

The City Council's expenditure and income is analysed as follows:

	2018/19 £000	2019/20 £000
<u>Expenditure</u>		
Employee benefits expenses	205,595	206,717
Other services expenses	333,936	339,801
Depreciation, amortisation, impairment, revaluations	64,047	56,001
Interest payments	28,154	27,456
Precepts and levies	41	83
Payments to Housing Capital Receipts Pool	927	927
Loss on the disposal of assets	2,181	1,225
Investment property expenditure and decreases in fair value	1,878	2,440
Trading expenses	2,618	7,480
Total expenditure	<u>639,377</u>	<u>642,130</u>
<u>Income</u>		
Fees, charges and other service income	(169,063)	(172,515)
Surplus on associates and joint ventures	(150)	(150)
Interest and investment income	(6,180)	(5,803)
Income from council tax and non-domestic rates	(159,360)	(143,455)
Government grants and contributions	(267,519)	(278,369)
Gain on disposal of assets	(2,164)	(2,805)
Investment property income and increases in fair value	(11,222)	(11,437)
Trading income	(6,057)	(13,454)
Total Income	<u>(621,715)</u>	<u>(627,988)</u>
Surplus or Deficit on the Provision of Services	<u>17,662</u>	<u>14,142</u>

Following the reporting requirements stipulated by the Code on accounting for schools, the City Council's single entity financial statements include income and expenditure of the City Council's maintained schools.

9. Adjustments of Accounting and Funding Basis under Regulations

This note details the adjustments that are made in the total comprehensive income and expenditure statement recognised by the City Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the City Council to meet future revenue and capital expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund

The General Fund is the statutory fund into which all the receipts of the City Council are required to be paid and out of which all liabilities of the City Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the City Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the City Council is required to recover) at the end of the financial year. The balance is not available to be applied to funding Housing Revenue Account (HRA) services.

Earmarked General Fund Reserves

Earmarked General Fund reserves hold funds which the City Council has decided to set aside for specific Non HRA purposes.

Housing Revenue Account (HRA) Balance

The HRA Balance reflects the statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the City Council's landlord function.

Earmarked HRA Reserves

This is the HRA 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.

Major Repairs Reserve

The City Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the City Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

The following tables show the adjustments made between reserves.

2018/19	Usable Reserves				
	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement (CIES) are different from the revenue for the year calculated in accordance with statutory requirements:					
- Pensions costs (transferred to (or from) the Pensions Reserve)	(25,459)	(2,540)			
- Reversal of entries included in the Surplus (or Deficit) on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(27,669)	(27,969)	(22,002)		(10,439)
- Other Adjustments to Revenue Resources	3,110	345			
Total Adjustment to Revenue Resources	(50,018)	(30,164)	(22,002)	-	(10,439)
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	598	5,107		(5,705)	
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(927)			927	
Capital grants and contributions unapplied credited to the CIES	25,694	2,210			(27,900)
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	4,219			512	
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	11,428	346			
Total Adjustments between Revenue and Capital Resources	41,012	7,663	-	(4,266)	(27,900)
Adjustments to Capital Resources					
Use of Major Repairs Reserve to finance capital expenditure			12,832		
Application of capital receipts to finance capital expenditure				4,021	
Application of capital grants to finance capital expenditure					36,598
Application of City Deal Grant to finance capital expenditure					
Other adjustments to capital resources	(100)			(2,142)	
Total Adjustments to Capital Resources	(100)	-	12,832	1,879	36,598
Total Adjustments	(9,106)	(22,501)	(9,170)	(2,387)	(1,741)

2019/20	Usable Reserves				
	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement (CIES) are different from the revenue for the year calculated in accordance with statutory requirements:					
- Pensions costs (transferred to (or from) the Pensions Reserve)	(17,671)	(3,205)			
- Reversal of entries included in the Surplus (or Deficit) on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(34,301)	(13,329)	(22,195)		(25,151)
- Other Adjustments to Revenue Resources	(2,275)				
Total Adjustment to Revenue Resources	(54,247)	(16,535)	(22,195)	-	(25,151)
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	71	7,019		(7,090)	
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(928)			927	
Capital grants and contributions unapplied credited to the CIES	25,507	1,652			(27,159)
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	4,892			657	
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	10,229	358			
Total Adjustments between Revenue and Capital Resources	39,770	9,029	-	(5,506)	(27,159)
Adjustments to Capital Resources					
Use of Major Repairs Reserve to finance capital expenditure			14,030		
Application of capital receipts to finance capital expenditure				4,799	
Application of capital grants to finance capital expenditure					49,205
Application of City Deal Grant to finance capital expenditure					
Other adjustments to capital resources	(129)	(923)		(942)	
Total Adjustments to Capital Resources	(129)	(923)	14,030	3,857	49,205
Total Adjustments	(14,606)	(8,428)	(8,165)	(1,649)	(3,105)

10. 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 2019/20. The "Other" balance relates to reserves that have in-year transactions or balances less than £7m and are held for a variety of reasons.

	Balance at 01-Apr 2018 £000	Transfers (to) / from 2018/19 £000	Balance at 31 March 2019 £000	Transfers (to) / from 2019/20 £000	Balance at 31 March 2020 £000
General Fund					
Earmarked for Capital Purposes	(38,769)	2,538	(36,231)	(5,401)	(41,632)
Medium Term Resource Strategy Reserve	(17,512)	(3,285)	(20,797)	(539)	(21,336)
Private Finance Initiative Reserve	(9,669)	1,786	(7,883)	1,736	(6,147)
City Deal Reserves	(23,625)	(512)	(24,137)	(429)	(24,566)
Highways Maintenance Reserve	(7,926)	(1,100)	(9,026)	(294)	(9,320)
Investment Reserve	(7,891)	(3,990)	(11,881)	(5,519)	(17,400)
Portfolio Reserves	(9,486)	1,750	(7,736)	1,486	(6,250)
Other	(38,434)	(11,575)	(50,009)	(2,164)	(52,173)
	(153,312)	(14,387)	(167,699)	(11,124)	(178,824)
Housing Revenue Account Capital Reserve	(1,119)	356	(763)	357	(406)
Total	(154,431)	(14,031)	(168,462)	(10,767)	(179,230)

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 - This 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.

City Deal Reserves - The City Deal capital scheme will take several years to come to fruition but will be largely funded by government grants that were received in 2013/14. This reserve holds funds that will be required to finance the City Deal capital scheme in future years.

Highways Maintenance Reserve - This reserve is to fund the ongoing maintenance costs of improvements to the highways network.

Investment Reserve - The Government has issued new guidance to discourage local authorities from financing the acquisition of investment properties from borrowing. The Council has already acquired an investment property portfolio and had planned to sell properties in the portfolio from time to time and replace them with others. This reserve will provide a mechanism to do that.

Portfolio Reserves - These reserves provide a mechanism to allow underspending by portfolios in 2019/20 and previous years to be carried forward into 2020/21.

11. Notes to the Comprehensive Income & Expenditure Statement

(a) Other Operating Expenditure

(Restated)		
2018/19		2019/20
£000		£000
17 (Gain)/Loss on the disposal of Non-Current Assets		(1,580)
591 Miscellaneous Operating Income and Expenditure		753
608		(827)

(b) Financing & Investment Income and Expenditure

2018/19			2019/20
£000			£000
25,402 Interest payable and similar charges			26,785
(3,427) Interest & investment income			(5,133)
9,762 Net pension interest on defined benefit (asset)/liability	39		8,787
(3,439) (Surplus)/deficit on trading undertakings & other operations			(5,974)
(9,344) Income, expenditure and changes in the fair value of investment properties	16		(8,996)
18,954			15,469

(c) Taxation & Non-Specific Grant Income and Expenditure

2018/19			2019/20
£000			£000
(76,374) Income from council tax	33		(79,711)
(16,964) Non Ring Fenced government grants	33		(24,252)
(27,904) Capital grants & contributions	33		(27,159)
(82,987) Retained non-domestic rates	33		(63,744)
(204,229)			(194,866)

12. Non-Current Assets (including Property Plant & Equipment)

Movements on Balances: Comparative Movements in 2018/19

	PPE							Total	Other Asset Categories	Combined Total
	Council Dwellings and Buildings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Other Land & Buildings - Surplus	Assets Under Construction			
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1st April 2018	671,838	321,655	64,407	245,459	2,416	2,083	95,327	1,403,185	246,060	1,649,245
Opening adjustment #	(39,565)	(20,660)	1,441	(1,908)	424	(291)	-	(60,559)	(4,728)	(65,287)
Revised as at 1st April 2018	632,273	300,995	65,848	243,551	2,840	1,792	95,327	1,342,626	241,332	1,583,958
Additions	998	1,071	476	-	-	-	76,308	78,853	29,194	108,047
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	(40,116)	269	(5,031)	(4,624)	34	(121)	-	(49,589)	(260)	(49,849)
Disposals	(3,049)	(2,401)	-	-	-	-	-	(5,450)	-	(5,450)
Reclassifications from Assets Under Construction	36,795	18,765	3,130	29,678	-	-	(89,236)	(868)	868	-
Reclassifications between categories	-	9,566	-	67	141	-	-	9,774	(9,774)	-
At 31st March 2019	626,901	328,265	64,423	268,672	3,015	1,671	82,399	1,375,346	261,360	1,636,706
Accumulated Depreciation and Impairment										
At 1st April 2018	(39,565)	(33,706)	(32,361)	(48,529)	380	(307)	-	(154,068)	(7,119)	(161,203)
Opening adjustment #	39,565	20,660	(1,441)	1,908	(424)	291	-	60,559	4,728	65,287
Revised as at 1st April 2018	-	(13,046)	(33,802)	(46,621)	(44)	(16)	-	(93,529)	(2,387)	(95,916)
Depreciation Charge in Year	(21,325)	(10,088)	(3,770)	(5,699)	(8)	(17)	-	(41,507)	(809)	(42,316)
Depreciation written out on revaluation	21,819	12,843	5,556	3,750	41	33	-	44,042	29	44,071
Impairment losses/(reversals) to SDPS and/or Revaluation Reserve	-	-	-	-	-	-	-	-	-	-
Disposals	106	220	-	-	-	-	-	326	-	326
Reclassifications from Assets Under Construction	-	-	-	-	-	-	-	-	-	-
Reclassifications between categories	-	7	-	(7)	-	-	-	-	-	-
At 31st March 2019	(10,064)	(32,016)	(32,016)	(48,577)	(11)	-	-	(90,668)	(3,167)	(93,835)
Net Book Value										
At 1st April 2018	632,273	287,949	32,046	196,930	2,796	1,776	95,327	1,249,097	238,945	1,488,042
At 31st March 2019	626,901	318,201	32,407	220,095	3,004	1,671	82,399	1,284,678	258,193	1,542,871

Note - The Other Asset Category column includes investment properties (see also note 16), heritage assets (see also note 15) and intangible assets

Movements in 2019/20

	PPE							Total	Other Asset Categories	Combined Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Other Land & Buildings - Surplus	Assets Under Construction			
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1st April 2019	626,901	328,265	64,423	268,672	3,015	1,671	82,399	1,375,346	261,360	1,636,706
Additions	4,743	142,056	642	-	-	-	63,772	211,213	11,492	222,705
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	(26,706)	(8,675)	(41)	(264)	63	(3)	-	(35,626)	531	(35,095)
Disposals	(4,368)	(1,307)	-	(24)	-	-	-	(5,699)	0	(5,699)
Reclassifications from Assets Under Construction	19,748	9,657	174	8,852	142	-	(41,932)	(3,359)	3,359	-
Reclassifications between categories	-	5,255	(354)	835	(3)	352	-	6,085	(6,085)	-
At 31st March 2020	620,318	475,251	64,844	278,071	3,217	2,020	104,239	1,547,960	270,657	1,818,617
Accumulated Depreciation and Impairment										
At 1st April 2019	-	(10,064)	(32,016)	(48,577)	(11)	-	-	(90,668)	(3,167)	(93,835)
Depreciation Charge in Year	(22,195)	(12,031)	(4,114)	(6,505)	(10)	-	-	(44,855)	(572)	(45,427)
Depreciation written out on revaluation	22,040	4,637	-	-	-	-	-	26,677	-	26,677
Impairment losses/(reversals) to SDPS and/or Revaluation Reserve	-	-	-	-	-	-	-	-	-	-
Disposals	155	82	-	24	-	-	-	261	-	261
Reclassifications from Assets Under Construction	-	-	-	-	-	-	-	-	-	-
Reclassifications between categories	-	-	40	(40)	-	-	-	-	-	-
At 31st March 2020	-	(17,376)	(36,090)	(55,098)	(21)	-	-	(108,585)	(3,739)	(112,324)
Net Book Value										
At 1st April 2019	626,901	318,201	32,407	220,095	3,004	1,671	82,399	1,284,678	258,193	1,542,871
At 31st March 2020	620,318	457,875	28,754	222,973	3,196	2,020	104,239	1,439,375	266,918	1,706,293

Note - The Other Asset Category column includes investment properties (see also note 16), heritage assets (see also note 15) and intangible assets.

Tangible non-current assets have been valued as follows:

A)	Council dwellings	Existing use value – social housing reflecting the guidance issued by MHCLG
B)	Other Land & Buildings	Existing use value
C)	Infrastructure	Historic cost depreciated as appropriate
D)	Vehicles & Plant	Historic cost depreciated as appropriate
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 schools, the depreciated replacement cost method of valuation has been used.

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 City Council's Property and Housing 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 31 March 2020.

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). 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 33% 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 2019/20 £4.7m of revaluations down were charged to the Surplus/Deficit on the Provision of Services (in 2018/19 the equivalent figure was £17.8m down).

At 31 March 2020, The Harbour School with a net book value of £7.616m had applied to become an Academy in early 2020/2021.

13. Dates and amounts of valuations of tangible non-current assets

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Investment Property £000	Held for Sale £000	Assets under Construction £000	Total £000
2019/20	620,318	212,881	-	-	-	2,020	187,906	-	-	1,023,125
2018/19	-	140,306	5,887	-	-	-	-	-	-	146,194
2017/18	-	57,049	-	-	-	-	-	-	-	57,049
2016/17	-	46,525	-	-	-	-	-	-	-	46,525
2015/16	-	1,114	-	-	-	-	-	-	-	1,114
Valued at Historic Cost	-	-	22,866	222,973	3,196	-	-	-	104,239	353,274
	620,318	457,875	28,754	222,973	3,196	2,020	187,906	-	104,239	1,627,281

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

Fifty years unless assessed by the valuer for a greater or lesser period.

c) Vehicles, Plant & Machinery

Generally ten years; although 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.

14. Significant commitments for future capital expenditure

a) Future Approved Capital Programme

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

Capital Programme	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Later £000
Children & Families	993	548	-	-	-	-
Community Safety	50	-	-	-	-	-
Culture & City Development	7,457	2,239	3,850	-	-	172
Education	11,154	4,641	2,123	-	-	-
Environment & Climate Change	30,667	62,216	25,014	25,436	26,473	5,282
Health, Wellbeing & Social Care	6,390	2,856	3,210	-	-	-
Leader	98,597	25,082	20,206	-	-	-
Commercial Port	13,082	8,206	2,930	-	-	-
Resources	19,138	5,107	853	550	475	2,268
Traffic & Transport	16,861	7,285	4,008	5,935	5,935	14,041
Housing Portfolio (HIP)	72,550	59,512	53,621	56,160	51,015	31,268
Total Capital Programme	276,939	177,692	115,815	88,081	83,898	53,031

b) Contractual Commitments

At the 31 March 2020, the City Council had entered into a number of contracts for the construction or enhancement of property plant & equipment in 2020/21 and in future years. The significant capital contracts identified as at 31 March 2020:

Capital Contracts	£000
Coastal Defence Scheme: Eastern Road and Kendall's Wharf	11,944
Local Full Fibre Network (LFFN)	3,200
Construction of flats on the former Southsea Community Centre site	1,424
Hampshire Community Bank	1,250

Note - Only contractual commitments over £0.5m have been included in the above note.

15. Heritage Assets

	Heritage Assets 2018-19 £000	Heritage Assets 2019-20 £000
Cost or Valuation as at 1st April 2019	75,322	75,820
Opening Adjustment(s)		(845)
Revised Cost or Valuation as at 1st April 2019		74,975
Additions / Donations	-	-
Revaluation increases/(decreases) to CIES and/or Revaluation Reserve	164	326
Disposals	(103)	-
Reclassifications	437	-
At 31st March	<u>75,820</u>	<u>75,301</u>
Depreciation and Impairment as at 1st April 2019	(990)	(861)
Opening Adjustment(s)		845
Revised Depreciation and Impairment as at 1st April 2019		(16)
Depreciation Charge in Year:	(3)	(6)
Depreciation written out on revaluation:	29	-
Impairment losses/(reversals) to CIES and/or Revaluation Reserve	-	-
Disposals	103	-
Reclassifications	-	-
At 31st March	<u>(861)</u>	<u>(22)</u>
Net Book Value		
Museum Collections	15,434	15,434
Historic Buildings	40,802	41,429
Archives	11,843	11,843
Others	6,253	6,253
At 1st April	<u>74,332</u>	<u>74,959</u>
Net Book Value		
Museum Collections	15,434	15,810
Historic Buildings	41,429	41,423
Archives	11,843	11,843
Others	6,253	6,203
At 31st March	<u>74,959</u>	<u>75,279</u>

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.

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

b) Museum Collection

The City Council has six museums, namely the D Day Story, Portsmouth Museum, Southsea Castle, Charles Dickens Birthplace, Eastney Beam Engine House and Cumberland House. The museum collections are valued at £15.8m.

The D Day Story has as its centrepiece the Overlord Embroidery which has been loaned to the City 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.

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

Southsea Castle was built in 1544. The Castle was part of a series of fortifications constructed by Henry VIII around England's coastline to protect the country from invaders and has many features of interest including a history of the castle, artefacts and displays.

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.

Eastney Beam Engine House contains a pair of James Watt beam engines and reciprocal pumps restored to their 1887 condition.

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. Alongside the natural history displays, there is a glass Butterfly House.

The Collections Development Policy for the City Council's museum collections is available on the City Council's web site.

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.

16. Investment Properties

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

Investment Properties	2018/19	2019/20
	£000	£000
Gross Income from Investment Property	(10,825)	(11,164)
Gross Expenditure relating to Investment Property	1097	2,440
Net Income from Investment Property	<u>(9,728)</u>	<u>(8,724)</u>

The figures above relate to properties classified as investment properties in these financial statements.

There are no restrictions on the City Council's ability to realise the value inherent in its investment property or on the City Council'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. Please note that the presentational format of the note has been changed from that used in previous years.

	2018/19 £000	2019/20 £000
Cost or Valuation		
Balance at 01/04/2019	163,848	182,167
Opening Adjustments	(716)	-
Revised Balance at 01/04/2019	163,132	182,167
Additions - Purchases	29,194	11,290
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	(385)	333
Disposals	-	-
Reclassifications from Investment Property Assets under Construction	-	201
Reclassifications from/(to) other asset categories	(9,774)	(6,085)
Balance at 31/03/2020	182,167	187,906
Depreciation and Impairment		
Balance at 01/04/2019	(716)	-
Opening Adjustments	716	-
Revised Balance at 01/04/2019	-	-
Depreciation Charge in Year	-	-
Depreciation written out on revaluation	-	-
Impairment losses/(reversals) to SDPS and/or Revaluation Reserve	-	-
Disposals	-	-
Reclassifications	-	-
Balance at 31/03/2020	-	-
Net Book Value at start of year	163,132	182,167
Net Book Value at end of year	182,167	187,906

	2018/19 £000	2019/20 £000
Reconciliation with CIES		
Net income from Investment Property	(9,728)	(8,724)
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	385	(333)
	(9,343)	(9,057)
Less Revaluation increases/(decreases) through Revaluation Reserve	(1)	61
Entry in CIES	(9,344)	(8,996)

Fair Value Hierarchy

Details of the City Council's investment properties and information about the fair value hierarchy as at 31 March 2020 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2020 £000
Commercial Properties	-	180,836	-	180,836
Other Investment Properties	-	7,070	-	7,070
Total	-	187,906	-	187,906

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between levels 1 and 2 during the year.

Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

Significant Observable Inputs - Level 2

The fair value for commercial and other investment properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Highest and Best Use of Investment Properties

In estimating the fair value of the City Council's investment properties, the highest and best use of the properties is their current use.

Additions to Investment Properties

There was one Investment Property purchased during 2019/20 at a cost of £11m.

Changes in Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

17. Financial Instruments

a) Financial Instrument Balances

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument in another entity. Financial instrument balances exclude statutory transactions such as taxation and benefits as these are not the result of a contract. Therefore many lines in the balance sheet, such as debtors and creditors, will include financial instruments, but also include other balances that are not financial instruments.

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

	Long-Term		Current		Total
	31 March	31 March	31 March	31 March	31 March
	2019	2020	2019	2020	2020
	£000	£000	£000	£000	£000
Financial Assets					
Amortised Cost - Investments	90,080	22,794	275,113	288,946	311,740
Amortised Cost - Debtors	27,388	27,989	42,502	35,865	63,854
Amortised Cost - Cash Equivalents			25,693	55,951	55,951
Total financial assets carried at amortised cost	117,468	50,783	343,309	380,762	431,545
Fair value through profit and loss - Investments	25,221	25,221			25,221
Fair value through other comprehensive income - Designated equity instruments	7,806	9,056			9,056
Total Financial Assets	150,495	85,060	343,309	380,762	465,822
Financial Liabilities					
Amortised Cost - Borrowings	(657,197)	(733,104)	(16,768)	(49,631)	(782,735)
Amortised Cost - Creditors			(49,185)	(52,931)	(52,931)
Total Financial Liabilities	(657,197)	(733,104)	(65,953)	(102,562)	(835,666)

At 31 March 2018 the Council held equity shares in MMD (Shipping Services) Limited (now known as Portico), Hampshire Community Bnk, Victory Energy Supply Ltd, and the UK Municipal Bonds Agency Plc. These were held as available for sale financial assets. Under the Code of Practice for Local Authority Accounting the Council has opted to irrevocably reclassify these instruments on 1 April 2018 as measured at fair value through other comprehensive income (FVOCI) on the basis that:

- These investments fall into the fair value through profit and loss class of assets because contractual terms do not give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding
- The investments are equity instruments
- The investments are not held for trading

Further details of the instruments that the City Council has opted irrevocably reclassify as measured at fair value through other comprehensive income are detailed below.

Description	Nominal £000	Fair Value £000	Change in fair value during 2019/20 £000
Portico (formerly MMD (Shipping Services) Ltd	2,027	5,056	56
Hampshire Community Bnk	3,750	3,750	-
Victory Energy Supply Limited	100	100	-
UK Municipal Bonds Agency Plc	150	150	-

The above investments are held to meet service objectives of the City Council and none of the above investments paid a dividend in 2019/20.

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:

	2018/19		2019/20	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Net (gains) / losses on:				
Financial assets measured at fair value through profit or loss	(221)		519	
Investments in equity instruments designated at fair value through other comprehensive income		-		65
Financial assets measured at amortised cost	3,681		2,048	
Total net gains / losses	3,460	-	2,567	-
Financial assets measured at amortised cost	(5,749)		(5,120)	
Financial assets measured at fair value through profit or loss	(440)		(165)	
Total Interest Revenue	(6,188)	-	(5,285)	-
Interest Expense	25,399	-	26,920	-

c) Fair Value of Assets Carried at Fair Value

Some of the City Council's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Financial Assets measured at Fair Value				
Recurring fair value measurements	Input level in fair value hierachy	Valuation technique used to measure fair value	As at 31/3/19 £000	As at 31/3/20 £000
Fair Value through Profit and Loss				
Financial instruments classed as fair value through profit and loss	Level 2 (Other significant observable inputs)	Professionally valued by custodian	25,221	9,702
Fair Value through Other Comprehensive Income				
Equity shareholding in Portico Ltd	Level 2 (Other significant observable inputs)	Net Worth	5,056	5,112
Equity shareholding in Hampshire Community Bnk Ltd	Level 2 (Other significant observable inputs)	Purchase price of shares	2,500	3,750
Equity shareholding in Victory Energy Supply Ltd	Level 2 (Other significant observable inputs)	Purchase price of shares	100	100
Equity shareholding in UK Muncipal Bonds Agency Plc	Level 2 (Other significant observable inputs)	Purchase price of shares	150	150
Total			7,806	9,112

d) The Fair Value of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)

Except for the financial assets carried at fair value (described above), all other financial liabilities and financial assets held by the City Council are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows.

Financial Liabilities Held at Amortised Cost	31 March 2019		31 March 2020	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
	£000	£000	£000	£000
Borrowing	(607,383)	(842,526)	(705,741)	(1,124,070)
Service Concessions and Finance Lease	(66,151)	(102,321)	(62,376)	(93,194)
Other Creditors	(49,616)	(49,616)	(67,549)	(67,549)
Total	(723,150)	(994,463)	(835,666)	(1,284,813)

The fair value shown above represents the cost of settling the City Council's liabilities. To settle most of these liabilities would cost more than the amount of the outstanding principal, i.e. the carrying amount. This is because the City Council would have to pay a premium to its lenders to reflect the difference between the interest payable on the City Council's borrowing and the lower rates pertaining at the current time.

Financial Assets Held at Amortised Cost	31 March 2019		31 March 2020	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
	£000	£000	£000	£000
Investments	391,391	379,941	385,829	385,829
Debtors	69,890	89,603	45,715	44,410
Total	461,281	469,544	431,544	430,239

The fair value and the carrying amount of the City Council's portfolio of investments this year is broadly similar, indicating that the interest rate receivable is broadly the same as the rates available at the Balance Sheet date.

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

31 March 2019				
	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
<i>Recurring fair value measurements using:</i>				
Financial liabilities				
<i>Financial liabilities held at amortised cost:</i>				
Borrowing	-	(842,526)	-	(842,526)
Service Concessions and Finance Lease Liabilities	-	(102,321)	-	(102,321)
Other creditors	-	(49,616)	-	(49,616)
Total	-	(994,463)	-	(994,463)
Financial Assets				
<i>Financial assets held at amortised cost:</i>				
Investments	-	379,941	-	379,941
Debtors	-	89,603	-	89,603
Total	-	469,544	-	469,544

31 March 2020				
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<i>Recurring fair value measurements using:</i>	£000	£000	£000	£000
Financial liabilities				
<i>Financial liabilities held at amortised cost:</i>				
Borrowing	-	(1,124,070)	-	(1,124,070)
Service Concessions and Finance Lease Liabilities	-	(93,194)	-	(93,194)
Other creditors	-	(67,549)	-	(67,549)
Total	-	(1,284,813)	-	(1,284,813)
Financial Assets				
<i>Financial assets held at amortised cost:</i>				
Investments	-	385,829	-	385,829
Debtors	-	44,410	-	44,410
Total	-	430,239	-	430,239

The fair values of financial liabilities and financial assets that are not measured at fair value included in the table above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

£1,025.5m of the fair value of borrowing at 31 March 2020 (£779.7m at 31 March 2019) represents loans from the Public Works Loans Board (PWLB). The fair value of PWLB loans of £1,025m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB redemption interest rates. The difference between the carrying amount and the fair value measures the additional interest that the City Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the City Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB Certainty interest rates. A supplementary measure of the fair value as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £588.9m would be valued at £811.2m. But, if the City Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge, based on the redemption interest rates, for early redemption of £436.6m for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £1,025.5m.

The fair value for financial liabilities and financial assets that are not measured at fair 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.

Financial Assets	Financial Liabilities
<ul style="list-style-type: none"> - no early repayment or impairment is recognised - estimated ranges of interest rates at 31 March 2020 of 0.70% to 2.61% for loans receivable, based on new lending rates for equivalent loans at that date - the fair value of trade and other receivables is taken to be invested at the billed amount 	<ul style="list-style-type: none"> - no early repayment is recognised - estimated ranges of interest rates at 31 March 2020 of 0.27% to 2.63% for loans payable based on new lending rates for equivalent loans at that date

18. Risks arising from Financial Instruments

The City Council'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 City Council
- Liquidity risk – the possibility that the City Council might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the City Council as a result of movements in interest rates and market levels

The City Council'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 City Council in the Annual Treasury Management Strategy.

Credit Risk

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

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

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

The City Council's 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 City Council's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise.

The following analysis summarises the City Council's potential maximum exposure to credit risk on other financial assets, based on experience of default and un-collectability, adjusted to reflect current market conditions. The COVID-19 pandemic is likely to have increased the City Council's exposure to credit risk, although the extent of this currently unclear. 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. In addition the City Council's treasury management investments and finance lease debtors are also excluded as there is no experience of default by these debtors, they are in a financially strong position, and the probability of them defaulting is thought to be extremely low.

	Amount at 31 March 2020 (Net of bad debt provision)	Historical Experience of Default	Historical Experience Adjusted for Market Conditions at 31 March 2020	Estimated Maximum Exposure to Default & Uncollectability at 31 March 2020	Estimated Maximum Exposure to Default & Uncollectability at 31 March 2019
	£000 A	% B	% C	£000 (A x C)	£000
Advances to commercial companies	8,306	0.0	10.0	831	323
Customers	38,414	2.5	10.8	4,156	1,306
Housing rents	138	0.2	1.0	1	1
Housing loans	4,898	0.0	0.0	0	0
				4,988	1,630

The City Council does not generally allow credit for customers. However, there is a balance of £7.6m that is past its due date for payment. This can be analysed by age as follows:

	£000
Less than three months	3,999
Three to six months	435
Six months to one year	957
More than one year	2,237
	7,628

Liquidity Risk

As the City Council 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 City Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

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

A further £67.9m of the Council's borrowing is through an arrangement which takes the legal form of leases but is in substance borrowing. Under this arrangement the Council leased the site of the Wightlink Ferry Terminal to Canada Life in return for a lump sum premium. The Council then leased the site back from Canada Life in return for a rent which is linked to the retail price index (RPI).

At 31st March 2020 the Council had £30m of temporary borrowing from other local authorities. This was necessary to fund the payment of employer's pension contributions in advance in order to obtain a discount. This borrowing has now been repaid.

The remainder of the City Council's borrowing consists of fixed rate PWLB debt. These loans have a weighted average remaining term of 29 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.

The maturity profile of borrowing excluding accrued interest is as follows:

	31 March 2019	31 March 2020
	£000	£000
Within 1 year	9,000	40,190
Between 1 and 2 years	8,995	9,646
Between 2 and 5 years	25,349	28,614
More than 5 years	546,177	608,465
	589,521	686,915

Market Risk - Interest Rate Risk

The City Council 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 City Council. 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 2021.
- Borrowings at fixed rates – the fair value of the borrowings will fall.
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- Investments at fixed rates – the fair value of investments will fall. Where fixed rate investments have short maturities, the effect will be similar to that for variable rate investments, as the replacement investments will generate more income to the Comprehensive Income and Expenditure Statement.

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

The City Council has a number of strategies for managing interest rate risk. In particular, the City Council aims to manage its investment maturity profile to ensure that no single month exposes the City Council 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 31 March 2020, if interest rates had been 0.5% higher with all other variables held constant, the financial effect would be an increase in investment income of £1.7m. The impact of a 0.5% fall in interest rates would have been a reduction in investment income of £1.7m.

19. Long-term Debtors

2018/19 £000		2019/20 £000
12,799	Finance Lease Debtors	11,743
5,831	* Portico Shipping Limited	7,503
8,758	* Other	8,743
27,388		27,989

* These figures are restated. In 2018/19 Portico Shipping Limited was a long term debtor with a value of £5,831,000 and was included under "Other". In 2019/20 Portico Shipping Limited was a long term debtor with a value of £7,503,000. As this value is above the City Council's preparer materiality of £7,000,000, Portico Shipping Limited is now shown separately.

20. Short-term Debtors

2018/19 £000	Outstanding Debtors at 31st March (Net of Bad Debt Provision)	2019/20 £000
-	Council Tax debtor (between preceptor/billing authority)	485
1,024	NNDR (debtor for prior overpayments due back from MHCLG)	68
11,851	Council Tax receivable from taxpayers	13,975
5,004	Non domestic rates receivable from taxpayers	3,921
23,637	Trade debtors	25,043
11,395	Government Departments	6,066
8,837	Housing Benefits	7,814
2,244	Housing Rents	4,307
8,535	Other debtors	9,293
5,713	Prepayments & accrued income	5,911
(23,488)	Provision for bad debts	(24,374)
54,752		52,509

21. Cash and Cash Equivalents

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

31 March 2019	31 March 2020
£000	£000
927 Cash held by the Authority	487
(4,177) Bank current accounts	(1,959)
29,870 Investments in money market funds and instant access deposit accounts	57,910
26,620	56,438

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

22. Short-term Creditors

2018/19	Outstanding Creditors at 31st March	2019/20
£000		£000
(24,250) Trade Creditors		(18,565)
(1) Council Tax creditor (between preceptor/billing authority)		-
(156) NDR retained income creditor (between preceptor/billing authority)		(160)
(333) NDR taxpayer receipts not yet paid to Government		(4,608)
(744) Council Tax refundable to taxpayers		(769)
(1,370) Non domestic rates refundable to taxpayers		(938)
(3,196) Government Departments		(2,952)
(5,917) Other creditors		(13,761)
(18,940) Receipts in Advance		(20,637)
(54,907)		(62,390)

23. Provisions

	Short Term £000	Long Term £000	Total £000
Balance at 31 March 2018	(3,116)	(5,630)	(8,746)
Additional provisions made in 2018/19	(3,144)	(6,906)	(10,051)
Amounts used in 2018/19	1,054	-	1,054
Balance at 31 March 2019	(5,206)	(12,536)	(17,742)
Additional provisions made in 2019/20	(2,212)	(7)	(2,219)
Provisions not required & written back	313	0	313
Amounts used in 2019/20	4,442	2,699	7,141
Balance at 31 March 2019	(2,663)	(9,843)	(12,507)

Provision for Appeals by Non Domestic Rate Payers - £10.9m (£13.2m in 2018/19)

In 2018/19 the City Council was in a non-domestic rate pool which retained 99% of the non-domestic rates that it collected. In 2019/20 the City Council was in a non-domestic rate pool which retained 74% of the non-domestic rates that it collected. The amount of non-domestic rates collected is affected by appeals against the rateable values of non-domestic properties.

24. Other Long-term liabilities

2018/19 £000	2019/20 £000
(13,067) Assets transferred from Hampshire County Council	(13,229)
(61,507) Service Concessions (including PFIs)	(56,281)
(6,900) Lease holder contributions	(7,226)
(8,427) Other	(8,392)
(89,901)	(85,128)

25. Unusable Reserves

31 March 2019	31 March 2020
£000	£000
(152,392) Revaluation Reserve	(155,319)
(2,792) Financial Instruments Revaluation Reserve	(2,730)
(783,320) Capital Adjustment Account	(774,930)
4,412 Financial Instruments Adjustment Account	4,220
377,796 Pensions Reserve	427,445
(4,224) Collection Fund Adjustment Account	(2,102)
1,663 Accumulating Compensated Absences Adjustment Account	1,974
(13,146) Deferred Capital Receipts	(12,090)
(572,003) Total Unusable Reserves	(513,532)

Revaluation Reserve

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

- 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.

2018/19	2019/20	
£000	£000	£000
(132,143) Balance at 1 April		(152,392)
(22,611) Revaluations		(6,287)
2,281 Difference between fair value depreciation and historic cost depreciation	3,360	
80 Accumulated gains on assets sold or scrapped	0	
2,362 Amount written off the Capital Adjustment Account		3,360
(152,392) Balance at 31 March		(155,319)

Capital Adjustment Account

The Capital Adjustment Account (CAA) 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 CAA is credited with the amounts set aside by the City Council 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 City Council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Note 9 provides details of the usable reserves side of all the transactions posted to the CAA, apart from those involving the Revaluation Reserve.

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 City Council 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 City Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve as outlined below therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the City Council 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.

2018/19	2019/20
£000	£000
385,896 Balance at 1 April	377,796
(49,906) Return on plan assets	68,543
13,807 Actuarial (gains) and losses on pensions assets and liabilities	(39,770)
51,112 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	47,561
(23,113) Employer's pensions contributions and direct payments to pensioners payable in the year	(26,685)
<u>377,796 Balance at 31 March</u>	<u>427,445</u>

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 City Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

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

2018/19 £000	2019/20 £000
(13,275) Balance at 1 April	(13,146)
29 Transfer to Capital Receipts Reserve upon receipt of cash	3
Transfer to Comprehensive Income and Expenditure	
100 Statement to mitigate the effect of leases being reclassified under IFRS	1,053
<u>(13,146) Balance at 31 March</u>	<u>(12,090)</u>

26. Notes to the Cash Flow Statement

(a) Operating Activities

The cash flows for operating activities include the following items:

2018/19 £000	2019/20 £000
6,233 Interest received	6,683
(25,414) Interest paid	(26,499)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2018/19	2019/20
£000	£000
42,194 Depreciation	45,270
28,863 Impairment and downward valuations	14,310
- Amortisation	156
- Increase/(decrease) in impairment for bad debts	-
(22,771) Increase/(decrease) in creditors	7,769
(120) (Increase)/decrease in debtors	3,793
(96) (Increase)/decrease in inventories	(71)
27,999 Movement in pension liability	20,876
5,124 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	5,439
18,074 Other non-cash items charged to the net surplus or deficit on the provision of services	(7,377)
99,267	90,165

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2018/19	2019/20
£000	£000
(5,034) Proceeds from sale of property, plant and equipment, investment property and intangible assets.	(7,019)
(40,810) Any other items for which the cash effects are investing or financing cash flows	(53,323)
(45,844)	(60,342)

(b) Investing & Financing Activities

2018/19 £000	Investing Activities	2019/20 £000
(106,067)	Purchases of property, plant and equipment, investment property and intangible assets	(219,998)
(1,012,710)	Purchase of short-term and long-term investments	(1,135,829)
(1,276)	Other payments for investing activities	(2,638)
5,034	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	7,019
1,014,317	Proceeds from short-term and long-term investments	1,182,211
52,231	Other receipts from investing activities	68,486
(48,471)	Net cash flows from investing activities	(100,749)

2018/19 £000	Financing Activities	2019/20 £000
36,613	Cash receipts of short and long term borrowing	150,825
(3,184)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,773)
(8,025)	Repayments of short and long term borrowing	(39,020)
(8,306)	Other payments for financing activities	6,854
17,098	Net cash flows from financing activities	114,886

(c) Reconciliation of Liabilities Arising from Financing Activities

	2018/19	Financing	Non-cash Changes			2018/19
	01-Apr	Cashflows	Acquisition	Changes in	Other Non-	31-Mar
	£000	£000	£000	Fair Value	cash	£000
					Changes	
Long Term						
- Borrowings	(552,978)	(32,130)	-	-	31	(585,077)
- Lease Liabilities	(877)	-	-	-	8	(869)
- On Balance Sheet PFI Liabilities	(65,280)	3,644	-	-	129	(61,507)
- Other	(24,445)	-	-	-	(3,080)	(27,525)
	<u>(643,580)</u>	<u>(28,486)</u>	-	-	<u>(2,912)</u>	<u>(674,978)</u>
Short Term						
- Borrowings	(12,116)	3,542	-	-	1	(8,573)
- Lease Liabilities	-	-	-	-	-	-
- On Balance Sheet PFI Liabilities	(3,183)	(460)	-	-	-	(3,643)
- Other	23	-	-	-	(23)	-
	<u>(15,276)</u>	<u>3,082</u>	-	-	<u>(22)</u>	<u>(12,216)</u>
Total Liabilities from Financing Activities	(658,856)	(25,404)	-	-	(2,934)	(687,194)

	2019/20	Financing	Non-cash Changes			2019/20
	01-Apr	Cashflows	Acquisition	Changes in	Other Non-	31-Mar
	£000	£000	£000	Fair Value	cash	£000
					Changes	
Long Term						
- Borrowings	(585,077)	(84,805)	-	-	8,677	(661,205)
- Lease Liabilities	(869)	-	-	-	-	(869)
- On Balance Sheet PFI Liabilities	(61,507)	5,225	-	-	1	(56,281)
- Other	(27,525)	-	-	-	(453)	(27,978)
	<u>(674,978)</u>	<u>(79,580)</u>	-	-	<u>8,225</u>	<u>(746,333)</u>
Short Term						
- Borrowings	(8,573)	(27,000)	-	-	(8,963)	(44,536)
- Lease Liabilities	-	-	-	-	-	-
- On Balance Sheet PFI Liabilities	(3,643)	(1,452)	-	-	-	(5,095)
- Other	-	-	-	-	-	-
	<u>(12,216)</u>	<u>(28,452)</u>	-	-	<u>(8,963)</u>	<u>(49,631)</u>
Total Liabilities from Financing Activities	(687,194)	(108,032)	-	-	(738)	(795,964)

Note 1 - The other non-cash changes include an interest accrual adjustment and an 18/19 correction for the split between short and long term liabilities.

Note 2 - The net cash flows from financing activities additionally includes £6.9 (£8.3m 18/19) of collection fund entries which do not form part of the liabilities on the balance sheet.

27. Agency Services

The City Council has no significant agency arrangements and therefore no significant agency expenditure, except under its statutory responsibilities to collect Council Tax and Business Rates on behalf of the Ministry of Housing, Communities and Local Government, Hampshire Police & Crime Commissioner and Hampshire Fire & Rescue Authority.

28. Pooled Budgets and Joint Arrangements

The City Council is currently involved in three pooled budget type arrangements with Portsmouth Clinical Commissioning Group (CCG).

(a) Health & Care Portsmouth Commissioning (formerly Integrated Commissioning Unit)

The City Council is the host partner in this pooled budget arrangement with Portsmouth CCG, under a section 75 agreement from 2013/14 for three years; which was subsequently extended three times from April 2016 to March 2021. The purpose of the arrangement is to commission a range of health and social care services for vulnerable people.

	2018/19		2019/20	
	£000	£000	£000	£000
Gross Income				
Portsmouth City Council	(369)		(337)	
Portsmouth CCG	(353)		(316)	
		(722)		(653)
Expenditure		702		653
(Surplus)/Deficit*		(20)		-
Council's share of the surplus		(10)		-

* Note - The surplus was carried forward in accordance with the section 75 agreement unless agreed otherwise by the partners.

(b) Continuing Health Care (CHC)

The City Council is host partner in this pooled budget arrangement with Portsmouth CCG under a section 75 agreement extended from September 2015. The purpose of the arrangement is to provide ongoing healthcare to those assessed as having a primary need arising from a disability, accident or illness.

	2018/19		2019/20	
	£000	£000	£000	£000
Gross Income				
Portsmouth City Council	(41,289)		(47,356)	
Portsmouth CCG ¹	(17,489)		(17,819)	
		(58,778)		(65,175)
Expenditure		58,720		65,175
(Surplus)/Deficit²		(58)		-
Council's share of the surplus		-		-

¹ Note - Contribution in 2019/20 includes £277k released from balance of receipts in advance.

² Note - The surplus was carried forward in accordance with the section 75 agreement by the CCG.

(c) Early Help and Prevention Services (EHPS)

The City Council is a partner in a joint working arrangement hosted by Solent NHS Trust under a section 75 agreement that was agreed in November 2019. The purpose of the arrangement is to deliver integrated care services to those aged 0 to 19 years old.

	2018/19		2019/20	
	£000	£000	£000	£000
Gross Income				
Portsmouth City Council	-		(4,090)	
Portsmouth CCG	-		-	
		-		(4,090)
Expenditure		-		4,044
(Surplus)/Deficit*		-		(46)
Council's share of the surplus		-		(46)

* Note - The surplus has been carried forward in accordance with the section 75 agreement unless agreed otherwise by the partners

29. Members' allowances

The total amount of members' allowances paid in 2019/20 was £0.6m (£0.6m in 2018/19). Detailed information on members' allowances is available from the Director of Finance & Information Technology (Section 151 Officer), Civic Offices, Guildhall Square, Portsmouth, PO1 2AR.

30. Officers' remuneration

a) Remuneration over £50,000

Detailed below are the number of employees, in the accounting period, whose remuneration paid fell in each bracket of a scale in multiples of £5,000 commencing at £50,000. This analysis includes the remuneration paid to Senior Officers, which is also separately disclosed.

2018/19 Number of employees		2019/20 Number of employees
70	£50,000 to £54,999	68
37	£55,000 to £59,999	55
33	£60,000 to £64,999	28
23	£65,000 to £69,999	22
11	£70,000 to £74,999	15
5	£75,000 to £79,999	14
3	£80,000 to £84,999	2
5	£85,000 to £89,999	2
2	£90,000 to £94,999	2
-	£95,000 to £99,999	1
1	£100,000 to £104,999	1
-	£105,000 to £109,999	1
1	£110,000 to £114,999	-
-	£115,000 to £119,999	1
4	£120,000 to £124,999	-
2	£125,000 to £129,999	2
-	£130,000 to £134,999	1
-	£135,000 to £139,999	1
-	£140,000 to £144,999	-
-	£145,000 to £149,999	-
-	£150,000 to £154,999	-
-	£155,000 to £159,999	-
-	£160,000 to £164,999	-
-	£165,00 to £169,999	-
-	£170,000 to £174,999	-
-	£175,000 to £179,999	-
1	£180,000 to £184,999	-
-	£185,000 to £189,999	1
<u>198</u>		<u>217</u>

b) Senior Officer Emoluments

The following tables set out the remuneration paid to Senior Officers; whose salary in 2018/19 and 2019/20 was either more than £150,000 or the officer is:

- a statutory chief officer, or;
- reports directly to the Chief Executive, or;
- accountable to the City Council itself or any of the City Council's committees or sub-committees.

2018/19	Salary & Allowances	Bonuses, Expenses, Compensation for loss of office, Benefits in Kind	Total Remuneration excluding Pension Contributions	Pension Contributions	Total Remuneration including Pension Contributions
Post Title	£	£	£	£	£
David Williams - Chief Executive (Head of Paid Service) (Note 1)	184,916	-	184,916	27,922	212,838
Deputy Chief Executive and City Solicitor (Monitoring Officer) (Note 1)	129,862	-	129,862	19,609	149,471
Director of Adult Social Care	This post is shared with Portsmouth Clinical Commissioning Group (CCG), with Portsmouth City Council being responsible for 50% of the employee's costs. For 2018/19 this cost was £70,000 (including salary and pension costs).				
Director of Children Services & Education	124,860	-	124,860	18,854	143,714
Director of Finance & Information Technology (s151 Officer) (Note 1 & 2)	123,581	-	123,581	18,661	142,242
Director of Public Health (Statutory Role)	This post is shared with Southampton City Council, with Portsmouth City Council being responsible for 50% of the employee's costs. For 2018/19 this cost was £65,346 (including salary and pension costs).				
Director of the Port	113,862	-	113,862	17,193	131,055
Solent Local Enterprise Partnership Chief Executive	124,860	-	124,860	18,854	143,714
Director of Community & Communications	88,339	-	88,339	13,639	101,978
Director of Culture & City Development	85,099	-	85,099	12,884	97,983
Director of Human Resources, Legal & Procurement	85,327	-	85,327	12,884	98,211
Director of Housing, Neighbourhood & Building Services (Note 1)	90,767	-	90,767	14,459	105,226
Director of Regeneration	127,221	-	127,221	19,210	146,431

Note 1: From October 2016, the City Council entered into a shared management arrangement with Gosport Borough Council. This arrangement involves sharing City Council senior officers with Gosport Borough Council, for which the City Council receives payment.

Note 2: From April 2016, the Director of Finance & Resources took on the additional role of providing Chief Finance Officer and Section 151 Officer services to Isle of Wight Council. They continue to be formally employed by the City Council, with the Isle of Wight Council paying for this service.

2019/20	Salary & Allowances	Bonuses, Expenses, Compensation for loss of office, Benefits in Kind	Total Remuneration excluding Pension Contributions	Pension Contributions	Total Remuneration including Pension Contributions
Post Title	£	£	£	£	£
David Williams - Chief Executive (Head of Paid Service) (Note 1)	188,014	-	188,014	30,270	218,284
Deputy Chief Executive and City Solicitor (Monitoring Officer) (until May 2019) (Note 1)	19,753	73,672	93,425	0	93,425
City Solicitor (Monitoring Officer) (from May 2019) (Note 1)	77,894	-	77,894	12,541	90,435
Chief of Health & Care Portsmouth (Adult Social Care Management)	This post is shared with Portsmouth Clinical Commissioning Group (CCG), with Portsmouth City Council being responsible for 50% of the employee's costs. For 2019/20 this cost was £70,000 (including salary and pension costs).				
Director of Children Services & Education	127,357	-	127,357	20,505	147,862
Director of Finance & Revenues (s151 Officer) (Notes 1 & 2)	139,000	-	139,000	22,379	161,379
Director of Public Health (Statutory Role) (until November 2019)	This post was shared with Southampton City Council, with Portsmouth City Council being responsible for 50% of the employee's costs. For 2019/20 this cost was £57,411 (including salary and pension costs).				
Director of Public Health (Statutory Role) (from January 2020)	22,603	-	22,603	3,639	26,242
Port Director	116,139	-	116,139	18,698	134,837
Solent Local Enterprise Partnership Chief Executive	134,857	-	134,857	21,712	156,569
Director of Community & Communication (until May 2019)	20,555	45,945	66,500	2,538	69,038
Director of Corporate Services (from September 2019)	53,027	-	53,027	8,537	61,564
Director of Culture & Regulatory Services	106,790	-	106,790	17,230	124,020
Director of Housing, Neighbourhood & Building Services (Note 1)	91,818	-	91,818	16,037	107,855
Director of Regeneration	129,765	-	129,765	20,892	150,657

Note 1: From October 2016, the City Council entered into a shared management arrangement with Gosport Borough Council. This arrangement involves sharing City Council senior officers with Gosport Borough Council, for which the City Council receives payment.

Note 2: From April 2016, the Director of Finance & Resources took on the additional role of providing Chief Finance Officer and Section 151 Officer services to Isle of Wight Council. They continue to be formally employed by the City Council, with the Isle of Wight Council paying for this service.

Note 3: During 2019/20 there has been regrading of a number of the senior officers to reflect the changes in their responsibilities.

c) Exit Packages

The numbers of exit packages committed during 2019/20, including the total cost per band and total cost of the compulsory and other redundancies, are set out in the table below:

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(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 (£)	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
	£0-£20,000	15	20	21	6	36	26	£179,397
£20,001 - £40,000	1	4	2	1	3	5	£89,520	£133,900
£40,001 - £60,000	-	-	4	1	4	1	£217,170	£46,231
£60,001 - £80,000	-	-	1	-	1	-	£69,889	£0
£80,001 - £100,000	1	-	1	-	2	-	£172,555	£0
£100,001 - £150,000	-	1	1	2	1	3	£143,845	£348,340
£150,001 - £200,000	-	-	-	-	-	-	£0	£0
£200,001 - £250,000	-	-	-	1	-	1	£0	£213,938
Total	17	25	30	11	47	36	£872,376	£874,369

The total cost of £874,369 in the table above is included in the City Council's Comprehensive Income and Expenditure Statement for 2019/20.

31. External Audit Costs

This note discloses the fees paid to our appointed auditors EY (Ernst and Young LLP) for work carried out in 2019/20.

2018/19 £000	2019/20 £000
115 External Audit Services	115
- Certification of grant claims & returns	-
- Statutory inspection	-
- Other	-
115 Total paid to EY	115

No other non-statutory services were provided by EY.

Note: This disclosure does not include any additional fees charged by EY in respect of prior year audits, or any external audit work undertaken by firms other than our appointed auditor EY.

32. Dedicated Schools Grant

The City Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education. The Dedicated Schools Grant (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 on a city-wide basis provided by the City Council. 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 are as follows:

	2018/19			2019/20		
	Central Exp £000	Schools Budget £000	Total £000	Central Exp £000	Schools Budget £000	Total £000
Final DSG for current year before academy recoupment	2,105	145,566	147,671	1,737	150,523	152,260
Academy figure recouped for current year	-	(77,013)	(77,013)	-	(82,070)	(82,070)
Total DSG after Academy recoupment for current year	2,105	68,553	70,658	1,737	68,453	70,190
Brought forward from prior year	4,687	-	4,687	5,201	(1,921)	3,280
Carry forward to next year agreed in advance	-	-	-	-	-	-
Agreed initial budgeted distribution in current year	6,792	68,553	75,345	6,938	66,532	73,470
In year adjustments	-	17	17	-	22	22
Final budget distribution for current year	6,792	68,570	75,362	6,938	66,554	73,492
Less actual central expenditure	(1,591)	-	(1,591)	(1,424)	-	(1,424)
Less Actual ISB deployed to schools	-	(70,490)	(70,490)	-	(68,953)	(68,953)
Plus Local authority contribution for current year	-	-	-	-	-	-
Carry forward to next year	5,201	(1,920)	3,281	5,514	(2,399)	3,115

33. Taxation and Grant Income

The City Council credited the following tax, grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

	2018/19	2019/20
	£000	£000
Credited to Services		
Rent Allowance Subsidy	(55,020)	(45,308)
HRA Rent Rebates Subsidy	(42,269)	(37,162)
Public Health Grant	(17,719)	(17,251)
Dedicated Schools Grant	(72,082)	(70,377)
Other grants	(25,121)	(31,710)
	<u>(212,211)</u>	<u>(201,808)</u>
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	-	-
Retained Non Domestic Rates	(100,917)	(66,289)
Retained Non Domestic Rates (Top Up Grant)/Tariff	17,932	2,545
PFI Grant	(11,521)	(11,521)
Other Grants	(5,443)	(12,731)
Income from Council Tax	(76,374)	(79,711)
Capital Grants and Contributions	(27,906)	(27,159)
	<u>(204,229)</u>	<u>(194,866)</u>

The City 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:

	2018/19	2019/20
	£000	£000
Capital Grants Receipts in Advance		
Government Grants	(39,790)	(55,192)
Other Grants & Contributions	(1,518)	(1,610)
	<u>(41,308)</u>	<u>(56,802)</u>

Revenue grants receipts in advance for 2019/20 were £11.1m (2018/19 £6.3m).

34. 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 behaviour or actions.

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 City Council's financial and operating policies. The City Council paid £0.72m to organisations where members had been appointed by the City Council to hold positions on the governing body.

During 2019/20 £317,568 was paid to companies in which members had an interest consisting of £308,348 paid to Portsmouth College and £9,220 paid to Unloc Learning Limited for schools youth forums.

Details of these interests are available for inspection, by appointment, by contacting the City Solicitor (Monitoring Officer) on 023 9283 4041.

Governing Bodies of Maintained Schools

In accordance with the requirements of the Code of Practice, these "single entity" financial statements include all income, expenditure, assets and liabilities of the City Council's maintained schools. Whilst the City Council has responsibility for distributing funding to its maintained schools under the Funding Framework (based on the legislative provisions in the School Standards and Framework Act 1998), the responsibility for spending this budget is delegated to the governing body of the school concerned. The City Council is therefore restricted in the extent to which it controls the income, expenditure, assets and liabilities included in its financial statements which relate to its maintained schools. At the reporting date, the City Council operated 16 maintained schools (excluding nurseries). Non-current assets with a net book value of £39.3m were recognised in relation to these schools.

Officers

Officers are bound by the City Council's Code of 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. During 2019/20 £1,540 was paid to Hampshire Chamber of Commerce. No further transactions have been disclosed.

Other public bodies

The City Council appoints two members to the Portchester Crematorium Joint Committee, has 25% of the voting rights on the Joint Committee and receives 25% of the dividends. The other three investors are Fareham, Havant and Gosport Borough councils. The City Council received a dividend of £150,000 in 2019/20 (£150,000 in 2018/19).

The Director of Finance and Resources is also the Section 151 Officer for the Isle of Wight Council and Gosport Borough Council as well as Portsmouth City Council. At the end of 2019/20 £5.0m of City Council funds were lent to the Borough of Gosport. This loan was repaid in full on 5th May 2020. During the year, the Treasury Manager lent City Council funds to several other local authorities.

The following amounts were (received) or paid to other related public sector bodies:

	£
Gosport Borough Council	(2,642)
Isle of Wight Council	82,503
NHS Portsmouth Clinical Commissioning Group	1,875,532
Southampton City Council	421,672

Payments were made to the Isle of Wight Council for adoption services and special education.

Payments were made to the NHS Portsmouth Clinical Commissioning Group in respect of staff costs and mental health reablement support services within the city.

Payments to Southampton City Council include telephone monitoring services for vulnerable people, civil contingencies shared services and public health services.

Joint working arrangements

In 2016/17 the City Council entered into the following joint working agreements:

- A shared Public Health Director with Southampton City Council
- A shared Director of Adult Services with Portsmouth Clinical Commissioning Group

The City Council has also entered into an arrangement with the Isle of Wight Council for a shared Chief Financial Officer and Section 151 Officer.

These directors will influence spending decisions at each authority however governance arrangements and their independent, professional status ensure the relationships are not compromised.

Also in 2016/17, shared senior management support was agreed between the City Council and Gosport Borough Council. The arrangement included the sharing of the Chief Executive, City Solicitor (Monitoring Officer) and Director of Finance roles from 1 October 2016 in addition to the sharing of a number of third tier roles.

Entities Controlled or Significantly Influenced by the City Council

Portsmouth City Council trades extensively with its subsidiary companies, Portico Shipping Limited and Victory Energy Supply. The City Council appoints directors to its subsidiary companies and HCB Holdings Ltd. The Director of Finance and Resources is a director of all of these companies. For information on the nature of these entities and transactions in the year relating to them, please refer to Note 35.

In December 2010, Portsmouth City Council created an independent not for profit organisation called the Portsmouth Cultural Trust to take over the running of the Portsmouth Guildhall. As part of the Partnering and Funding Agreement between Portsmouth City Council and the Portsmouth Cultural Trust, an annual revenue contribution has been paid to the Portsmouth Cultural Trust to assist in the operational management of the Portsmouth Guildhall. Two councillors currently reside on the board of trustees as Portsmouth City Council representatives. 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.

35. Other Companies

Portico Shipping Limited (formerly MMD (Shipping Services) Limited)

The City Council acquired all of Portico's issued share capital and voting rights in February 2008. The company's principal activity is stevedoring. It is engaged in the provision of shipping, warehousing and associated services and distribution of produce.

The Council invested a further £4.5m in Portico in 2019/20.

The City Council owns 100% of the shares in Portico which are carried in the City Council's balance sheet under long term investments at their net worth of £5.1m.

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

Nine loans with an outstanding balance of £8.3m have been advanced to Portico by the City Council. These loans carry interest between 3.14% and 4.81% per annum and mature by 2032.

The City Council's exposure to losses arising from its ownership of Portico is limited to £14.0m, i.e. the value of its shares in the company, the funds lodged with Lloyds Bank and the outstanding capital loans advanced to Portico.

The City Council generated £3.0m of income from Portico during 2019/20 (£4.1m in 2018/19); primarily from lease rentals and harbour dues.

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 Portico Shipping Limited is as follows:

2018/19	2019/20
£000	£000
15,433 Gross Expenditure	15,652
(15,453) Gross Income	(15,709)
(20) Net (Income) / Loss	(57)

Portico does not provide any of the Council's statutory services and the Council has not passed control of any tangible assets to Portico. As the net expenditure and income of Portico 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.

Hampshire Community Bnk Holding Limited

Following detailed due diligence Portsmouth City Council have entered into a share application and subscription agreement for £5m of ordinary shares in HCB Holding Limited, a company holding all the shares in respect of Hampshire Community Bank Limited. Member voting rights in HCB Holding Limited are as follows:

- 50% shareholders in HCB Holding Limited, each shareholder having one vote
- 50% HCB Foundation Limited

HCB Foundation Limited is a Company Limited by Guarantee without share capital which has a charitable constitution. The share application and subscription agreement requires take up and payment for the £5m of ordinary shares in four instalments. The first three instalments each of £1.25m were paid in March 2016, October 2017, and April 2019. Payment of the remaining instalment is conditional on further due diligence reports confirming progress towards obtaining regulatory approval for Hampshire Community Bank Limited to begin commercial banking activities.

Victory Energy Services Limited

The City Council acquired all of the issued share capital and 75% of the voting rights in September 2017. The company aims to provide energy to Portsmouth and the surrounding areas when the necessary regulatory approvals have been obtained. At 31 March 2020 the City Council had provided Victory Energy Services Limited with £3.4m of services. This was reflected as a short term investment in the Council's accounts. However, following the Council's decision to dispose of its interests in Victory Energy Services Limited, the costs of services provided to Victory Energy Services have been fully written off.

UK Municipal Bonds Agency Plc

The Municipal Bonds Agency (the Agency) has been established to deliver cheaper capital finance to local authorities. It will do so via periodic bond issues and by facilitating greater inter-authority lending.

The Local Government Association and 57 local government shareholders have invested over £6 million in the Agency. The City Council is a shareholder in the Agency with a total investment of £150,000 which it acquired in October 2014.

36. Capital expenditure and capital financing

2018/19		2019/20
Restated		
£000		£000
574,846	Opening capital financing requirement	626,694
109,293	Long Term Assets	226,457
12,246	Revenue expenditure funded from capital under statute	29,421
121,539	Capital Investment	255,878
696,385	Sources of finance	882,572
(4,533)	Capital receipts (including capital receipts set aside to repay debt)	(5,456)
(36,598)	Other Grants & contributions	(49,205)
	Sums set aside from revenue:	0
(11,774)	- Direct revenue contributions	(10,587)
(12,832)	- Use of Major Repairs Reserve	(14,030)
(4,219)	- Minimum Revenue Provision	(4,892)
265	Other Adjustments	278
(69,691)		(83,892)
626,694	Closing capital financing requirement	798,680
	The capital financing requirement is met by the following items in the balance sheet:	
1,540,010	Fixed assets including equity investments	1,715,306
-	* Advances to subsidiaries	8,306
(146,430)	Revaluation Reserve	(155,319)
(778,716)	Capital Adjustment Account	(774,930)
11,830	* Other (including Housing General Fund mortgages and advances by Local Enterprise Partnership (LEP))	5,317
626,694		798,680

* These figures are restated. Advances to subsidiaries amounted to £6,462,000 in 2018/19 and was included under "Other". Advances to subsidiaries increased to £8,306,000 in 2019/20. As this is above the City Council's preparer materiality of £7,000,000, advances to subsidiaries are now shown separately.

The capital financing requirement increased by £172.0m in 2019/20 for the following reasons:

2018/19		2019/20
£000		£000
56,580	Increase in underlying need to borrow	177,535
(4,732)	Provision for the repayment of debt	(5,549)
51,848	(Decrease) / Increase in Capital Financing Requirement	171,986

37. Leases

City Council as Lessee

Finance Leases

The City Council has a number of buildings and port equipment under finance leases with a combined value of £5.2m. The associated finance lease liability in nominal terms is £0.9m.

The City Council 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 City Council and finance costs that will be payable by the City Council in future years while the liability remains outstanding.

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

	Minimum Lease Payments	
	31 March	31 March
	2019	2020
	£000	£000
No later than one year	190	189
Later than one year and not more than 5 years	755	755
Later than five years	11,424	11,236
	12,369	12,180

The net present value of the minimum lease payments is £5.8m.

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 2018/19 and 2019/20 no contingent rents were payable by the City Council.

The City Council has sub-let some of the industrial accommodation held under these finance leases. At 31 March 2020 the minimum payments expected to be received under non-cancellable sub-leases was £0.4m (£0.4m at 31 March 2019).

Operating Leases

The City Council 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 shown below.

	31 March	31 March
	2019	2020
	£000	£000
Not more than one year	1,314	1,526
Later than one year but not later than five years	3,213	4,301
Later than 5 years	28,059	22,697
	32,587	28,524

Contingent rents may be payable on the previous gas works land at the continental ferry port. The rents payable under operating leases are therefore:

	31 March	31 March
	2019	2020
	£000	£000
Minimum lease payments	32,587	28,524
Contingent rents	26,325	26,325
	58,912	54,849

City Council as Lessor

Finance Leases

The City Council has leased out property at 407 Middle Park Way, Crookhorn Golf Course, the Wightlink Terminal, the Portsmouth Handling Services building and Merefield House.

The City Council 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 City Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2019 £000	31 March 2020 £000
Finance lease debtor (net present value of minimum lease payments):		
Current	1,257	1,268
Non current	15,673	16,662
Unguaranteed residual value of property	103	103
Gross investment in lease	17,033	18,033

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 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
	Not later than one year	196	152	1,348
Later than one year and not later than five years	971	715	5,437	5,020
Later than five years	11,592	11,028	37,948	36,310
	12,759	11,895	44,733	42,585

The City Council's tenants such as 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 City Council has not set aside an allowance for uncollectable amounts.

The minimum lease payments where the City 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 City Council in 2018/19 or 2019/20.

Operating Leases

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

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

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

	31 March 2019	31 March 2020
	£000	£000
Not later than one year	16,037	26,252
Later than one year and not later than five years	55,519	88,407
Later than five years	270,481	81,620
	<u>342,037</u>	<u>196,279</u>

The minimum lease payments receivable where the City 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 2018/19 and 2019/20 no contingent rents were receivable by the City Council.

38. Private Financing Initiatives and Similar Contracts

The City 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 Grannag Limited 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

Milton Cross School was a local authority run community school, but land and buildings were subsequently transferred to an academy trust. Although the assets transferred to the academy trust the liabilities under the PFI still reside with the City Council. 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 not include a demand element. 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 City 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 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 in the charge of 50% of the net proceeds generated from the sale of recyclable materials, i.e. the sales proceeds generated from selling the recyclable materials, less costs reasonably incurred by the operator in selling the materials. The income from the sale of recyclables is split between the 11 Waste Collection Authorities located within the County of Hampshire including Portsmouth City Council. The operator takes the full risks and rewards for the sale of electricity generated by the ERFs. The ERFs have spare capacity. Circa 15% of the plants processing potential, which the operator is allowed to exploit by selling waste processing services to third parties. The profit on selling off this capacity is shared equally with the Councils.

As the City 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 City Council at the end of the contracts for no additional charge, the City 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:

	Miltoncross Secondary School £000	Learning Disability Facilities £000	Highways Maintenance £000	Waste Disposal £000	Total £000
Cost or Valuation					
At 1st April 2019	-	5,948	152,115	12,535	170,598
Additions	-	-	-	-	-
Revaluation increases/(decreases) to CIES and/or Revaluation Reserve	-	-	-	-	-
Disposals	-	-	-	-	-
Reclassifications	-	-	6,760	-	6,760
At 31st March 2020	-	5,948	158,875	12,535	177,358
Depreciation and Impairment					
At 1st April 2019	-	(68)	(32,268)	-	(32,335)
Depreciation Charge in Year	-	(218)	(3,440)	(934)	(4,592)
Depreciation written out on revaluation	-	-	-	-	-
Impairment losses/(reversals) to CIES and/or Revaluation Reserve	-	-	-	-	-
Disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
At 31st March 2020	-	(286)	(35,708)	(934)	(36,927)
Net Book Value					
At 1st April 2019	-	5,879	119,847	12,535	138,263
At 31st March 2020	-	5,662	123,167	11,601	140,430

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

	Liability as at 31 March 2019	Payments	Liability as at 31 March 2020
	£000	£000	£000
Milton Cross School	(10,394)	340	(10,054)
Learning Disability Facilities	(3,646)	122	(3,524)
Highways Maintenance	(45,074)	2,312	(42,762)
Waste Disposal	(6,166)	998	(5,168)
Total	(65,280)	3,772	(61,508)

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

	Repayments of Liability	Interest	Service Charges	Total Revenue Commitment	Life Cycle Replacement Costs	Total Commitment
	£000	£000	£000	£000	£000	£000
Within 1 year	5,226	5,669	22,629	33,523	1,502	35,025
Within 2 to 5 years	18,784	17,827	94,187	130,798	16,217	147,015
Within 6 to 10	31,835	11,779	96,924	140,538	15,581	156,119
Within 11 to 15	5,663	926	1,259	7,848	-	7,848
	61,508	36,201	214,999	312,707	33,300	346,007

39. 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 City Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the City Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The City Council participates in the following pension schemes:

The Local Government Pension Scheme (LGPS) - This is administered locally by Hampshire County Council and is a 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 City Council and employees to pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The scheme is operated under the regulatory framework for the LGPS, and the governance of the scheme is the responsibility of the scheme's Joint Panel and Board including the management and investment of the fund as well as compliance with appropriate legislation and regulations.

The principal risks to the City Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary post-retirement benefits upon early retirement - These are unfunded benefit arrangements, under which liabilities are recognised when awards are made. No investment assets are built up to meet these pension liabilities, so cash has to be generated to meet actual pension payments as they fall due.

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 City 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 City 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.

The Teachers' Pension Fund - This is an unfunded defined benefit scheme, for teaching staff, which is administered by the Department for Education. Unlike the other pension schemes above, this has been accounted for as a defined contribution scheme - details of this fund are disclosed in Note 40.

The NHS Pensions Scheme - This is an unfunded defined benefit scheme, for NHS staff, which is administered by NHS Business Services Authority. Similar to the Teacher's Pension Fund, this has been accounted for as a defined contribution scheme - details of this fund are disclosed in Note 40.

Transactions Relating to Post-Employment Benefits

The City 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 City 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:

	2018/19 £000	2019/20 £000
Comprehensive Income and Expenditure Statement:		
Cost of services		
Current service cost	28,220	37,904
Past service cost	13,130	870
Settlements/Curtailments	-	-
Financing and Investment Income and Expenditure		
Net Interest Expense	9,762	8,787
Total Post Employment Benefit charged to the Surplus of deficit on the Provision of services	51,112	47,561
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Return on plan assets in (excess) / below that recognised in net interest	(49,906)	68,543
Actuarial (gains) / losses due to changes in financial assumptions	59,488	(30,656)
Actuarial (gains) / losses due to changes in demographic assumptions	(47,506)	(28,010)
Actuarial (gains) / losses due to liability experience	1,825	18,896
Total (gains) / losses from reclassification	-	-
	(36,099)	28,773
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	15,013	76,334
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	51,112	47,561
Actual amount charged against the General Fund and HRA Balances for pensions in the year:		
Employers' contributions payable to scheme	21,715	25,314
Retirement benefits payable to pensioners	1,398	1,371
	23,113	26,685

The cumulative amount arising from the re-measurement of the net defined benefit liability recognised in the Comprehensive Income and Expenditure Statement from 1 April 2006 when the City Council adopted FRS17/IAS19 to 31 March 2020 is a loss of £152.3m (2018/19 £123.5m).

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the City Council's balance sheet arising from the City Council's obligation in respect of its defined benefit scheme is as follows:

	2018/19 £000	2019/20 £000
Present value of funded liabilities (LGPS):	(1,127,301)	(1,129,541)
Present value of funded liabilities (Pilot Pension Scheme)	(3,500)	(3,610)
Present value of unfunded liabilities (LGPS and Teachers):	(17,673)	(16,062)
Fair value of assets (LGPS):	767,882	718,954
Fair value of assets (Pilot Pension Scheme)	2,627	2,645
Surplus/(deficit) in the scheme:*	<u>(377,965)</u>	<u>(427,614)</u>

* - The figures shown in the note above are based on information from the respective actuaries. The net liability shown in this note differs from the amount shown in the balance sheet, as the entries in the revenue account and balance sheet have had the actuary's estimated employers contributions figure replaced by the actual figure. The difference is not material (£0.2m), especially as all the IAS19 figures are estimates.

The liabilities show the underlying commitments that the City Council has in the long term to pay post-employment (retirement) benefits. The total liability of £427.6m (prior year £378.0m) has a substantial impact on the net worth of the City Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit, means that the financial position of the City Council remains healthy. The deficit on the LGPS 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 (AON Hewitt Limited).

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

2018/19	Funded Liabilities	Funded Liabilities	Unfunded Liabilities	Unfunded Liabilities	Total
	LGPS	Pilot Pension Scheme	LGPS	Teachers' Additional Benefits	
	£000	£000	£000	£000	£000
Opening balance at 1 April	(1,064,421)	(3,812)	(11,600)	(7,311)	(1,087,144)
Current service cost	(28,190)	(30)	-	-	(28,220)
Interest Expense	(27,420)	(87)	(290)	(190)	(27,987)
Contributions by scheme participants	(5,960)	(6)	-	-	(5,966)
Actuarial gains and (losses) - Financial Assumptions	(59,220)	192	(290)	(170)	(59,488)
Actuarial gains and (losses) - Demographic Assumptions	46,650	26	510	320	47,506
Actuarial gains and (losses) - Liability Experience	(1,750)	(25)	(30)	(20)	(1,825)
Benefits paid	26,140	242	841	557	27,780
Past service costs including curtailments	(13,130)	-	-	-	(13,130)
Net Increase in assets from reclassification	-	-	-	-	-
Settlements	-	-	-	-	-
Closing balance at 31 March	<u>(1,127,301)</u>	<u>(3,500)</u>	<u>(10,859)</u>	<u>(6,814)</u>	<u>(1,148,474)</u>

2019/20	Funded Liabilities	Funded Liabilities	Unfunded Liabilities	Unfunded Liabilities	Total
	LGPS	Pilot Pension Scheme	LGPS	Teachers' Additional Benefits	
	£000	£000	£000	£000	£000
Opening balance at 1 April	(1,127,301)	(3,500)	(10,859)	(6,814)	(1,148,474)
Current service cost	(37,870)	(34)	-	-	(37,904)
Interest Expense	(26,770)	(96)	(250)	(160)	(27,276)
Contributions by scheme participants	(6,530)	(9)	-	-	(6,539)
Actuarial gains and (losses) - Financial Assumptions	30,800	(294)	100	50	30,656
Actuarial gains and (losses) - Demographic Assumptions	27,630	70	190	120	28,010
Actuarial gains and (losses) - Liability Experience	(19,080)	(6)	(20)	210	(18,896)
Benefits paid	30,450	259	821	550	32,080
Past service costs including curtailments	(870)	-	-	-	(870)
Net increase in assets from reclassification	-	-	-	-	-
Settlements	-	-	-	-	-
Closing balance at 31 March	<u>(1,129,541)</u>	<u>(3,610)</u>	<u>(10,018)</u>	<u>(6,044)</u>	<u>(1,149,213)</u>

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

2018/19	LGPS	Pilot Pension Scheme	Total
	£000	£000	£000
Opening balance at 1 April	698,147	2,932	701,079
Interest Income	18,160	65	18,225
Remeasurement gains / (losses)	50,060	(154)	49,906
Contributions by employer	21,695	20	21,715
Contributions by participants	5,960	6	5,966
Net benefits paid out	(26,140)	(242)	(26,382)
Settlements	-	-	-
Administration costs incurred	-	-	-
Net increase in assets from disposals / acquisitions	-	-	-
Net increase in assets from re-classification	-	-	-
Closing balance at 31 March	<u>767,882</u>	<u>2,627</u>	<u>770,509</u>

2019/20	LGPS	Pilot	Total
	£000	Pension Scheme £000	£000
Opening balance at 1 April	767,882	2,627	770,509
Interest Income	18,420	69	18,489
Remeasurement gains / (losses)	(68,720)	177	(68,543)
Contributions by employer	25,292	22	25,314
Contributions by participants	6,530	9	6,539
Net benefits paid out	(30,450)	(259)	(30,709)
Settlements	-	-	-
Administration costs incurred	-	-	-
Net increase in assets from disposals / acquisitions	-	-	-
Net increase in assets from re-classification	-	-	-
Closing balance at 31 March	718,954	2,645	721,599

The interest income 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 £50.3m (£68.22m in 2018/19) for the LGPS and £0.246m (£0.089m 2018/19) for the PNPf.

LGPS assets comprised:

Asset Type:	Value at 31 March 2020		Value at	
	Quoted	Unquoted	Total	31 March 2019
Equities	45.10%	7.50%	52.60%	60.40%
Property	0.80%	6.20%	7.00%	7.60%
Government bonds	21.20%	0.00%	21.20%	22.70%
Corporate bonds	0.00%	0.00%	0.00%	5.20%
Cash	3.40%	0.00%	3.40%	2.30%
Other	14.00%	1.80%	15.80%	1.80%
Total	84.50%	15.50%	100.00%	100.00%

PNPF assets comprised:

Asset Type:	Value at 31 March 2020		Value at	
	Quoted	Unquoted	Total	31 March 2019
Equities	0.00%	0.00%	0.00%	34.80%
Property	0.00%	0.00%	0.00%	0.00%
Government bonds	13.10%	0.00%	13.10%	13.70%
Corporate bonds	10.10%	0.00%	10.10%	33.30%
Cash	2.80%	0.00%	2.80%	7.40%
Other	74.00%	0.00%	74.00%	10.80%
Total	100.00%	0.00%	100.00%	100.00%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, which is an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The City 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 triennial valuation of the LGPS as at 31 March 2019 and the latest valuation of the PNPF as at 31 December 2016. These calculations have been updated to 31 March 2020 by Aon Hewitt Limited allowing for the IAS 19 financial and demographic assumptions.

The principal assumptions used by the actuary have been:

2018/19	Funded LGPS	Funded Pilots Pension Scheme	Unfunded LGPS	Unfunded Teachers
Mortality assumptions:				
Longevity at 65 for current pensioners (years):				
Men	23.3	21.6	23.3	23.3
Women	26.1	23.5	26.1	26.1
Longevity at 65 for future pensioners (years):				
Men	24.9	23.0	0.0	0.0
Women	27.8	25.1	0.0	0.0
Rate of inflation	2.2%	2.2%	2.2%	2.2%
Rate of increase in salaries	3.7%	3.2%	0.0%	0.0%
Rate of increase in pensions	2.2%	2.2%	2.2%	2.2%
Rate for discounting scheme liabilities	2.4%	2.9%	2.4%	2.4%

2019/20	Funded LGPS	Funded Pilots Pension Scheme	Unfunded LGPS	Unfunded Teachers
Mortality assumptions:				
Longevity at 65 for current pensioners (years):				
Men	23.0	21.3	23.0	23.0
Women	25.5	23.2	26.5	25.5
Longevity at 65 for future pensioners (years):				
Men	24.7	22.3	0.0	0.0
Women	27.2	24.4	0.0	0.0
Rate of inflation	2.0%	2.0%	2.0%	2.0%
Rate of increase in salaries	3.0%	3.0%	0.0%	0.0%
Rate of increase in pensions	2.0%	2.0%	2.0%	2.0%
Rate for discounting scheme liabilities	2.3%	2.0%	2.3%	2.3%

Sensitivity Analysis:

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions shown in the table above. The sensitivity analysis, below, show reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that only the assumption mentioned changes, while all other assumptions remain the same. In practice some of the changes are unlikely to occur, or they may be interrelated.

LGPS:	Impact on Present Value of Obligation		Impact on Projected Service Cost	
	Increase £m	Decrease £m	Increase £m	Decrease £m
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1106.35	1153.32	35.6	38.29
Rate of salaries (increase or decrease by 0.1%)	1131.64	1127.56	36.92	36.92
Rate of increases to pensions in payment (increase or decrease by 0.1%)	1151.48	1108.19	38.29	35.6
Post retirement mortality assumption (increase or decrease in 1 year)	1165.2	1094.27	38.3	35.55

Note - Assumes a baseline figure of £1129.59m present value of defined benefit obligation, or £36.92m projected service cost

PNPF:

Rate for discounting scheme liabilities - if this were to decrease by 0.5% the defined benefit obligation would increase by around 6% or £210,000.
RPI inflation assumption - if this were to increase by 0.5% (with a corresponding increase in salary and pensions) the defined benefit obligation would increase by around 2% or £70,000.
Average life expectancy - if this were to increase by 1 year the defined benefit obligation would increase by around 5% or £170,000.

In both cases the sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

Commutation:

LGPS: 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 (no change from 2018/19).

Pilots Pension Scheme: It is assumed that 90% of members take the maximum cash lump sum available upon retirement.

Impact on the City Council's Cash Flows:

LGPS - The objectives of the scheme include a funding objective which is to hold sufficient and appropriate assets to meet the schemes past service liabilities. At the 2016 triennial valuation a shortfall was identified and a strategy agreed, between Hampshire County Council (the scheme's administering authority) and Aon Hewitt (the scheme's actuary), to achieve a 100% funding level in no more than 25 years from the date of the last triennial valuation. This included setting service contribution rates along with additional annual shortfall contributions. Funding levels continue to be monitored on an annual basis and any further shortfall identified will be recovered through an additional contribution stream payable over a recovery period to be agreed at the respective valuation. The next triennial valuation is due to be completed as at the 31 March 2022 with the results expected around the 31 March 2023.

PNPF - The pension scheme's objectives include being funded prudently. At the last triennial valuation (31 December 2016) a shortfall was identified and a funding strategy was put in place to address this. The strategy included the City Council making a one-off contribution in 2013 to address its share of the deficit, and then to continue making on-going contributions, at an agreed rate, in respect of continued accrued benefits for active pilots. The next triennial valuation is due to be completed as at the 31 December 2019 with the results expected later in 2020.

The total contributions expected to be made by the City Council in the year to 31 March 2021 are £18.67m (£23.65m in the year to 31 March 2020) for the LGPS and £14,000 (£8,000 in the year to 31 March 2020) for the PNPF.

40. Pension schemes accounted for as defined contribution schemes

(a) Teachers' Pension Scheme

Teachers employed by the City 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 City 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 City 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 2019/20, the council paid £4.6m (2018/19 £3.82m) to Teachers' Pensions in respect of teachers' retirement benefits. There were £0m (2018/19 £0m) of contributions outstanding at 31 March 2020.

The City 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 39 (unfunded teachers).

(b) NHS Pension Scheme

NHS employees TUPE'd to the City Council, as part of the transfer of public health responsibilities, are covered by the NHS Pensions Scheme. Details of the scheme can be found on the NHS Pensions website at <https://www.nhsbsa.nhs.uk/nhs-pensions>. The scheme is an unfunded defined benefit scheme which covers NHS employees. The scheme is not designed to be run in a way which would enable participating bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the City Council of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

41. Exceptional items

There were no exceptional items in 2019/20.

42. Contingent Liabilities

There were no contingent liabilities in 2019/20 above our preparer materiality level of £7m.

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 of 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.

2018/19 £000	Council Tax	2019/20 £000
	Income	
(91,700)	Council Tax	(97,337)
	Transfers from the General Fund	
(28)	Council Tax write ons	(86)
	Contributions received towards the estimated (deficit)	
0	Council Tax - Hampshire Police and Crime Commissioner	0
0	Council Tax - Hampshire Fire and Rescue Authority	0
0	Council Tax - Portsmouth City Council	0
(91,728)		(97,423)
	Expenditure	
	Distribution of estimated Council Tax Surplus	
133	Council Tax - Hampshire Police and Crime Commissioner	209
51	Council Tax - Hampshire Fire and Rescue Authority	77
1,026	Council Tax - Portsmouth City Council	1,574
1,210		1,860
	Precepts	
9,912	Council Tax - Hampshire Police and Crime Commissioner	11,498
3,672	Council Tax - Hampshire Fire & Rescue Authority	3,865
74,660	Council Tax - Portsmouth City Council	79,716
88,244		95,079
	Bad and Doubtful Debts	
736	Council Tax - amounts written off	668
718	Council Tax - change in provision	1,682
90,908		99,289
(820)	(Surplus) / deficit for the Year	1,866
(1,457)	(Surplus) / Deficit brought forward 1 April	(2,277)
(820)	(Surplus) / Deficit for the Year	1,866
(2,277)	Council Tax balance as at 31 March - (Surplus) / Deficit	(410)
	Apportioned :	
(95)	Hampshire Police Authority	(49)
(259)	Hampshire Fire & Rescue Authority	(17)
(1,923)	Portsmouth City Council	(345)
(2,277)		(411)

2018/19 £000	Business Rates / NNDR	2019/20 £000
	Income	
(88,913)	Income from Business Ratepayers (inc. Appeals Provision offset)	(87,944)
(1,815)	Less: Increase / (Decrease) Provision for Losses on Appeals	1,394
(90,728)		(86,550)
	Contributions received towards estimated Deficit / (Surplus)	
557	MHCLG	(632)
546	Portsmouth City Council	838
11	Hampshire Fire & Rescue Authority	2
1,114		208
(89,614)		(86,342)
	Business Rates Apportioned to:	
-	DCLG	21,072
85,928	Portsmouth City Council	62,374
868	Hampshire Fire & Rescue Authority	843
333	DCLG - Transitional Surcharge / (Relief)	966
273	Cost of Collection	275
-	Interest Paid on Overpayments Refunded	-
	Bad and Doubtful Debts	
573	NNDR - Amounts written off	586
(197)	NNDR - Increase / (Decrease) in Provision	37
87,777		86,153
(1,836)	(Surplus) / Deficit for the year	(189)
149	(Surplus) / Deficit b/fwd 1 April	(1,687)
(1,836)	(Surplus) / Deficit for the Year	(189)
(1,687)	Non Domestic Rates as at 31st March - (Surplus) / Deficit	(1,876)
	Apportioned:	
632	MHCLG	(99)
(2,302)	Portsmouth City Council	(1,758)
(17)	Hampshire Fire and Rescue Authority	(19)
(1,687)		(1,876)
(3,964)	Total Collection Fund (Surplus) / Deficit	(2,287)

1. Council Tax Base

The City 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 number of taxable properties after allowing for discounts, exemptions etc	Ratio	Band D equivalent dwellings
A	15,752	6/9	10,501
B	23,752	7/9	18,474
C	18,271	8/9	16,241
D	5,282	9/9	5,282
E	3,222	11/9	3,938
F	1,482	13/9	2,140
G	576	15/9	961
H	25	18/9	49
	68,361		57,586
Less: adjustment for non-collection			(1,153)
Add: MoD dwellings contribution			642
2019/20 tax base			57,075

Multiplying the 2019/20 tax base of 57,075.4 by the standard council tax of £1,665.85, gives the total precepts on the Collection Fund of £95.079m.

2. Income from business ratepayers

The City 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 provisions for Business Rates Retention (BRR), with effect from 2013/14 income collected from business rates is shared between three organisations.

- Ministry of Housing Communities and Local Government (MHCLG) - 50%
- Portsmouth City Council - 49%
- Hampshire Fire and Rescue Authority (HF&RA) - 1%

However, in 2019/20 Portsmouth City Council (along with Southampton City Council and the Isle of Wight Council) are in a 75% business rates retention pool (2018/19 100%). This allows the City Council to retain 74% of any business rates income, with the fire authority still retaining 1% and MHCLG now receiving 25%.

The total business rates rateable value as at 31 March 2020 was £217.82m.

The business rates multiplier for the year was 49.1p for small businesses and 50.4p for other business properties.

After the granting of various reliefs and exemptions the net rates due totalled £86.4m.

In closing the 2019/20 accounts it was deemed necessary to make a provision of £14.8m for refunds on unresolved appeals.

3. Collection Fund surpluses and deficits

Surpluses or deficits on the Collection Fund must be either distributed or made good by specific contributions. Any surplus or deficit anticipated on both Council Tax & Business Rates 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.

Council Tax

The Council Tax part of the Collection Fund has realised a surplus of £0.411m as at 31 March 2020. The Council Tax side of the Collection Fund was estimated to result in a surplus of £0.651m in January 2020. The decline in the outturn of £0.24m is mostly attributable to an increase in the provision for bad debts as a result of the COVID-19 epidemic.

Business Rates

The Business Rates part of the Collection Fund has realised a surplus of £1.875m as at 31 March 2020. The Business Rates side of the Collection Fund was estimated to result in a surplus of £1.239m in January 2020. The improvement on outturn of £0.636m is attributable to a lower than anticipated appeals provisions being required.

This improvement in the Collection Fund will be shared across the precepting bodies in the financial year 2021/22.

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.

2018/19 £000	2019/20 £000
Expenditure	
23,522 Repairs & Maintenance	24,823
- Supervision & Management	-
17,311 General	15,739
14,753 Special Services	16,794
1,045 Rent rates taxes & other charges	1,271
- Depreciation (and Impairments) of Non-current Assets:	-
39,843 - Dwellings	26,860
7,009 - Other Assets	4,187
121 Amortisation of Intangible Assets	215
59 Amortisation of Revenue Expenditure Funded from Capital Under Statute	48
75 Debt management costs	71
52 Movement in allowance for bad debts	617
- Sums directed by the secretary of state	-
103,790 Total Expenditure	90,625
Income	
(61,836) Dwelling rents (gross)	(64,196)
(3,122) Non-dwelling rents	(3,130)
(11,574) Service charges (Tenants charges for services)	(12,137)
(76,532) Gross rents	(79,463)
(1,854) Leaseholders charges for services & facilities	(1,984)
(1,430) Other Charges for Services & Facilities	(1,178)
(674) Contributions toward expenditure	(578)
(80,490) Total Income	(83,203)
23,300 Net Cost of HRA Services as included in the CIES	7,422
294 HRA's share of corporate & democratic core	346
23,594 Net cost of HRA Services	7,768
(2,164) (Gain) or loss on the sale of HRA non-current assets	(2,805)
5,964 Interest payable & similar charges	5,679
(383) Interest and investment income	(267)
1,683 Pensions interest cost and expected return on pensions assets	1,518
(87) Income, expenditure changes in the fair value of investment	0
(2,210) Capital grants and contributions receivable	(1,652)
26,397 Surplus / Deficit for the year on HRA services	10,241

Movement on the HRA Statement

2018/19 £000	2019/20 £000
(25,114) Balance on the HRA at the end of the previous year	(21,580)
26,397 (Surplus) or deficit for the year on the HRA Income & expenditure account	10,241
(22,863) Adjustments between accounting basis & funding basis under statute	(8,754)
3,534 Net (Increase) or decrease before transfers to or from reserves	1,487
(356) Transfers to / from reserves	(358)
356 Capital Expenditure charged to Revenue	358
3,534 Increase / decrease in HRA in year	1,487
(21,580) Balance on the HRA at the end of the current year	(20,093)

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 City Council 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 £5m of downward revaluations were charged to Income & Expenditure in 2019/20. The debit of £5m in the 2019/20 Income and Expenditure Account is reversed out by a credit 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 City Council'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.

Notes to the Housing Revenue Account

H1. Note to the Movement on the HRA Statement

2018/19 £000	2019/20 £000
Adjustments between accounting basis & funding basis under regulations	
- Adjustments involving the Capital Adjustment Account:	
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement	
(21,733) Charges for depreciation and impairment of non-current assets	(5,333)
1 Charges for revaluations of investment properties	-
2,162 Charges for amortisation of intangible non-current assets	2,805
(59) Net gain/loss on disposal of non current assets	(48)
- REFCUS written down	-
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:	
- Sums set aside from revenue to fund capital expenditure	-
2,210 Other Adjustments	729
(3,236) Capital grants and contributions credited to the HRA	(3,735)
(5,401) Reversal of Major Repairs Allowance credited to the HRA	(6,599)
2,862 Reversal of items relating to retirement benefits debited or credited to the HRA	3,394
130 Employer's pension contributions and direct payments to pensioners payable in the year	(72)
- Transfer from accumulated absences	-
201 Reversal of finance leases	105
- Other adjustments	-
(22,863)	(8,754)

H2. Gross Rent Income

This is the gross rent income for the year after allowance is made for voids etc. During the year, 1.07% of lettable dwellings were vacant. In 2018/19 the figure was 1.53%. The average dwelling rent was £84.58 per week in 2018/19 (£85.81 per week in 2018/19), a decrease of £1.23 over the previous year. The amount of arrears as at the end of the financial year was £2.3million.

H3. Depreciation of non-current assets

The depreciation charge is broken down as follows:

	2018/19 £000	2019/20 £000
Council houses	21,925	22,195
Other assets	3,202	3,578
Intangible Assets	121	156
	25,248	25,929

H4. Revaluations Down & Impairments

Revaluations down & impairments are a reduction in the value of an asset, measured by specific criteria, to below its carrying amount in the balance sheet. Revaluations down & impairments which were charged to the HRA may be reversed if an asset is subsequently revaluated upwards.

	2018/19	2019/20
	£000	£000
Council Houses	17,840	4,665
Other Assets	3,168	609
Intangible Assets	-	59
	21,008	5,333

H5. 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.

H6. Capital Reserve

A Capital Reserve was established during 1991/92 as part of the Housing Investment Programme (HIP) financing policy. There was no contribution made during the year from revenue surplus.

H7. Transfer to/from Major Repairs Reserve

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

	2018/19			Repayment	2019/20
	Total	Houses	Other	of borrowing	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2018	(1,840)	(11,010)	-	-	(11,010)
Transferred from HRA	(22,002)	(22,195)	-	-	(22,195)
Transferred to HRA	-	-	-	-	-
Financing of capital expenditure	12,832	14,389	-	-	14,389
Balance at 31 March 2019	(11,010)	(18,816)	-	-	(18,816)

H8. Housing stock

The City Council was responsible for managing an average of 14,567 dwellings (excluding mobile homes) during 2019/20. The stock as defined by the Housing Revenue Account Subsidy regulations at 31 March was as follows:

	No. of dwellings	
	2018/19	2019/20
Houses	4,353	4,334
Flats	10,238	10,209
	14,591	14,543
Mobile homes	-	-
	14,591	14,543

The change in stock can be summarised as follows:

	No. of Dwellings	
	2018/19	2019/20
Stock at 1 April	14,765	14,591
Mobile Homes no longer within HRA	-	-
Sales	(58)	(82)
Bedsit conversions	-14	(1)
Demolitions	-	-
Repurchases	7	31
Additions	3	2
New builds	155	1
Change in use	(267)	1
Stock at 31 March	14,591	14,543

H9. 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 1 April 2019	626,901	39,713	14,733	397	681,744
Opening Adjustments per 18/19 Audit	-	(2,135)	-	-	(2,135)
Revised Net book value at 1 April 2019	626,901	37,578	14,733	397	679,609
Depreciation during the year	(22,195)	(2,918)	(644)	(172)	(25,929)
Revaluations	(4,664)	1,021	(3)	(58)	(3,704)
Additions	4,743	-	20,026	-	24,769
Disposals	(4,214)	-	-	-	(4,214)
Transfers between asset categories	19,747	-	(19,806)	60	1
Appropriations	-	333	-	-	333
Net book value at 31 March 2020	620,318	36,014	14,306	227	670,865

H10. Vacant possession value of dwellings within the HRA

The vacant possession value of dwellings held within the HRA amounts to £1,879m as at 1st April 2020.

The substantial difference between this figure and the net book value figure of £620m reflects the economic cost to government of providing council housing at less than open market rents.

H11. Capital expenditure within the HRA

Capital expenditure during the year and its financing was:

	Non-Current Assets			Total
	Land	Houses	Other property & Equipment	
	£000	£000	£000	
Borrowing	-	4,576	-	4,576
Usable capital receipts	-	4,734	-	4,734
Revenue contributions	-	-	358	358
Major Repairs Reserve	-	14,030	-	14,030
Grants and contributions	-	1,652	-	1,652
	-	24,992	358	25,350

H12. Bad Debt Provision

	31 March 2019	Additions and reductions	Write-offs	31 March 2020
	£000	£000	£000	£000
Housing rents provision	(1,954)	(998)	744	(2,208)
Sale of flats provision	-	-	-	-
Provision for other HRA bad debts	(46)	34	-	(12)
	(2,000)	(964)	744	(2,220)

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Glossary of Terms

Accruals

The concept that income and expenditure is recognised as it is earned or incurred; not as money is received or paid.

Assets

An asset is 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).

Budget

The Council's aims and policies set out in financial terms against which performance is monitored. Both revenue and capital budgets are prepared.

Capital Adjustment Account (CAA)

The CAA 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.

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 Reporting Code of Practice (SeRCOP) which sets out "Proper Practice" in relation to Financial Statements.

Collection Fund

This is a separate fund, maintained by the billing authority, which records the income and expenditure relating to council tax and non-domestic rates on behalf of the billing authority, precepting authorities and the Government.

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 and open spaces.

Comprehensive Income & Expenditure Statement

The City Council's revenue account showing 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

A contingent liability arises from either:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority, or
- a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or
 - the amount of the obligation cannot be measured with sufficient reliability

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.

Council Tax

A local tax levied by a Local Authority on its citizens.

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 unusual 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.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Asset

A right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

Finance Lease

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

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability, or equity instrument, of another entity.

Financial Liability

An obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

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.

Heritage Assets

Heritage Assets are those assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities.

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, ie. council housing.

Impairment

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

Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

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 share of pension scheme assets associated with the City Council's underlying obligations.

Liability

A Liability is an obligation that the City Council expects to have to meet in monetary terms. Liabilities are categorised as either non-current or current. A non-current liability is an obligation that the City Council expects to meet in a period of time greater than one year. A current liability is expected to be met within one financial year.

Long-Term Debtor

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

Long Term Investments

Investments where the receivable amount will 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.

Money Market Funds (MMF)

Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Net Book Value

The amount at which Property Plant and Equipment are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Expenditure

Total expenditure for a service less directly related income.

Net Realisable Value

The open market value of an asset, less the expenses to be incurred in realising the asset.

Non-Current Assets

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

Non-Distributed Costs

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

National Non-Domestic Rates (“NNDR”)

The Non-domestic rate is a nationally set levy on business premises, set by the Government at a standard rate, charged to businesses and collected by the City Council. 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.

Non-Operational Assets

Property Plant and Equipment held by the Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, or held for sale.

Operating lease

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

Operational Assets

Property Plant and Equipment held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Pension scheme liabilities

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

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Financial Statements are signed by the responsible financial officer.

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 the Hampshire Police and Crime Commissioner and the Hampshire Fire and Rescue are precepting authorities.

Private Finance Initiative (PFI)

PFI and similar 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. The Council is deemed to control the services that are provided under its PFI schemes, 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 assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

Property, Plant and Equipment

Tangible assets that benefit the Council and the services it provides for a period of more than one year.

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.

Public Works Loans Board (PWLB)

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Revaluation Reserve

The Revaluation Reserve is an unusable reserve that contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment.

Revenue Expenditure / Income

The cost or income associated with the day-to-day running of the services and financing costs.

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 REFCUS are grants of a capital nature to voluntary organisations or home improvement grants, where no repayment is expected.

Revenue Support Grant

A non-ringfenced grant paid, by central Government, to the City Council to contribute towards the general cost of its services.

Short-Term Borrowing

Money borrowed for a period of less than one year.

Stock

Comprises the following categories:

- Goods or other assets purchased for resale;
- Consumable stores;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;
- Long-term contract balances;
- Finished goods.

Surplus or Deficit on the Provision of Services (SDPS)

This is the total of income less expenses, excluding components of Other Comprehensive Income and Expenditure as required or permitted by guidance. It represents the true economic cost of providing the City Council's services.

Treasury Management

The management of the Council's debt and investment of surplus funds.

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.

Statement of Accounts 2019/20

www.portsmouth.gov.uk



Topic Areas

- Legislative Background
- The 8 Financial Statements Requiring Approval
- Financial Statement Relationships
- Financial Statements Comparability
- Big Picture
- General Fund Performance vs Budget
- Portfolio Performance vs Budget
- Key Messages From the Accounts
- Usable Revenue Reserves & Net Worth
- Emerging Audit Issues
- Questions

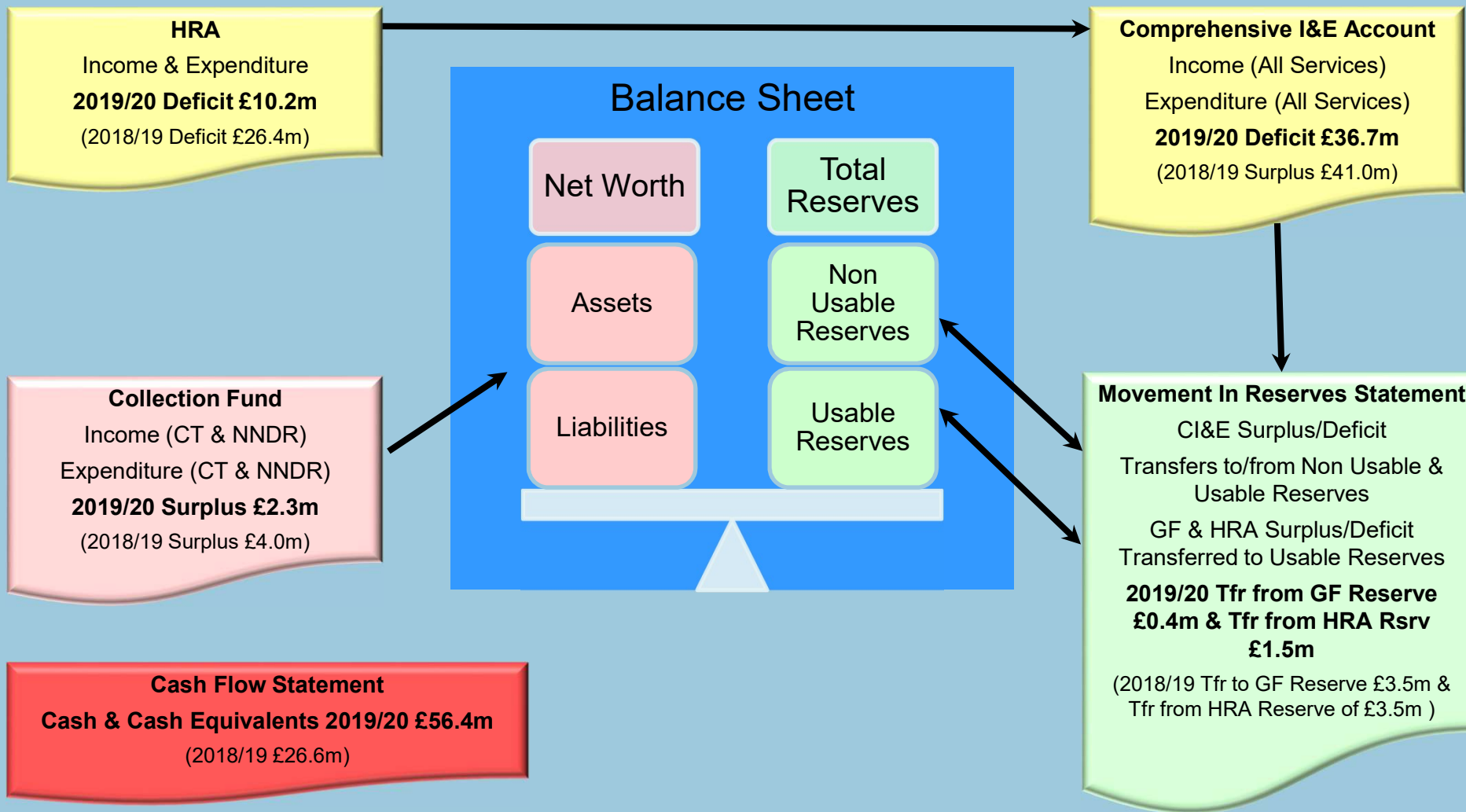
Legislative Background

- Accounts & Audit Regulations – Financial Statements Signed by S151 by 31st May and Financial Statements must normally be approved by G&A&S by 31st July.
- However, due to the COVID-19 pandemic the regulations have been amended and require the 2019/20 Statements to be signed by S151 by 31st August and approved by G&A&S by 30th November
- 8 statements to be approved
- Format of Accounts is prescribed in law – governed by International Financial Reporting Standards (IFRS)
- Not directly comparable to how the Council sets its budget (due to IFRS) although CI&E Statement is presented in a Portfolio format

Financial Statements

- 8 Statements Require Approval
 - Statement of Responsibilities (page 36)
 - Movement in Reserves Statement (page 39)
 - Comprehensive Income & Expenditure Statement (page 40)
 - Balance Sheet (page 41)
 - Cash Flow Statement (page 43)
 - Notes to the Financial Statements (page 44 to 138)
 - Collection Fund (page 139)
 - Housing Revenue Account (HRA) (page 144)

Financial Statement Relationships



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Note: General Fund Reserve Includes Schools Reserves. 2019/20 MIRS Includes a transfer from School Reserves of £0.4m

Financial Statements Comparability

- CI&E Statement is comparable with Private Sector
- CI&E Statement and PCC Budget – Not Comparable

But

- Can compare “Bottom Line” i.e. transfers to and from Usable Reserves in PCC Budget with Movement In Reserves Statement

The Big Picture

	£m
Actual surplus transferred to General Fund Reserve (excl. Schools)	0.0
Less:	
Planned Contribution to GF Reserves	<u>0.0</u>
Over/Underspending Spending compared to Revised Budget	0.0
Add:	
Unplanned improvement in Collection Fund	0.3
Total Net improvement in Forecast by 2021/22	<u>0.3</u>

Note:

HRA deficit of £1.5m Vs Revised Budget £0.9m deficit = £0.6m overspend
Schools deficit £0.4m = contribution from Schools Reserves

GF Performance vs Budget - £0.0m

2018/19		2019/20
£m	Main Budget Variances	£m
7.5	Children's Social Care*	3.2
1.8	Health & Social Care*	2.2
(9.3)	Release From Contingency to meet overspending above	(5.4)
(1.8)	Other Portfolio Variances (before transfers to Portfolio Res)*	(0.4)
1.8	Tfr of Portfolio under/over spending to Portfolio Specific Reserves	0.4
(0.5)	Windfall Savings/Costs (e.g. Investment Properties & Hsng Ben)*	0.1
0.2	General Contingency not used	(2.9)
(0.2)	Additional Government Grants	(0.1)
(0.4)	Pension Costs, Treasury Management, Portico & Other Costs	(0.4)
(0.9)	Underspend Before Transfer to Revenue Reserve For Capital	(3.3)
0.9	Transfer to Revenue Reserve For Capital (Full Council Feb 2020)	<u>3.3</u>
<u>0.0</u>	General Fund Over/Underspend Compared to Revised Budget	<u>0.0</u>

* Portfolio & Committee Performance vs Revised Budget – £5.1m Overspend (£7.0m Overspend in 2018/19)

Portfolio Performance vs Budget £5.1m

Portfolio/Committee	£000's
Children's Social Care <i>Increasing numbers of looked after children</i>	3,153
Health, Wellbeing & Social Care <i>Increasing client volumes & complexity of client needs</i>	2,204
Housing (General Fund) <i>Increase in families requiring B&B Accommodation</i>	284
Education <i>Additional Home to School Transport Costs (£0.3m) offset by staff vacancies (£0.2m)</i>	100
Leader <i>Additional Investment Property Income (£0.4m) & Port Income (£0.1m)</i>	(451)
Community Safety <i>staff vacancies</i>	(78)
Environment & Climate Change <i>Higher Waste Collection & Disposal profit share with contractor</i>	(78)
Resources <i>Staff vacancies (£0.2m), lower Coroner costs (£0.1m), increased income from the sale of services (£0.1m) offset by higher IT Costs (£0.4m)</i>	(36)
Culture, Leisure & City Development	(8)
Traffic & Transportation	(2)
Total Portfolio & Committee Net Overspend	5,088

Changes in Accounting Treatment

No changes in accounting treatment since 2018/19 accounts were approved

Key Messages From 2019/20 Accounts

- Gross Cost of Services £642m (2018/19 £639m)
- Long Term Asset Values £1.8bn (up by £0.1bn primarily increase in value of Property, Plant & Equipment offset by a reduction Long Term Investments - £66m)
- Long Term Borrowing (For Capital Expenditure) increased by £81m to £661m (includes investment properties)
- Short Term Debt owed to PCC down from £54.8m to £52.5m
- Short Term Creditors (Money owed by PCC to others) up from £54.9m to £62.4m
- Cash & Cash Equivalents increased by £29.8m to £56.4m

Usable Revenue Reserves - £226.4m

- Pooled Business Rates down £5.8m to Nil Pools abolished 31st March 2020 by Govt. PCC share moved to Revenue Reserve For Capital
- ASC In-House Residential Reserve down £2.9m to £0.8m Redesign of Hilsea, Edinburgh, Sheerwater, & Harry Sotnick
- Highways PFI Reserve down £1.7m to £6.1m Will fund known future commitments
- HRA General Balance down £1.5m to £20.1m Budget uncertainties – Rent Cap & Maint. Post Grenfell
- Portfolio Reserves down £1.5m to £6.2m Committed to meet Portfolio Holder approved initiatives
- Public Health Reserve down £0.8m to £1.6m Ringfenced to meet Public Health expenditure
- ASC Transformation Fund down £0.4m to £2.4m Set aside to fund ASC initiatives intended to reduce ongoing financial pressures
- HRA Capital Reserve down £0.4m to £0.4m Committed to fund HRA Capital schemes
- School Reserves down £0.4m to £4.1m Ring fenced to meet schools expenditure

Usable Revenue Reserves Continued

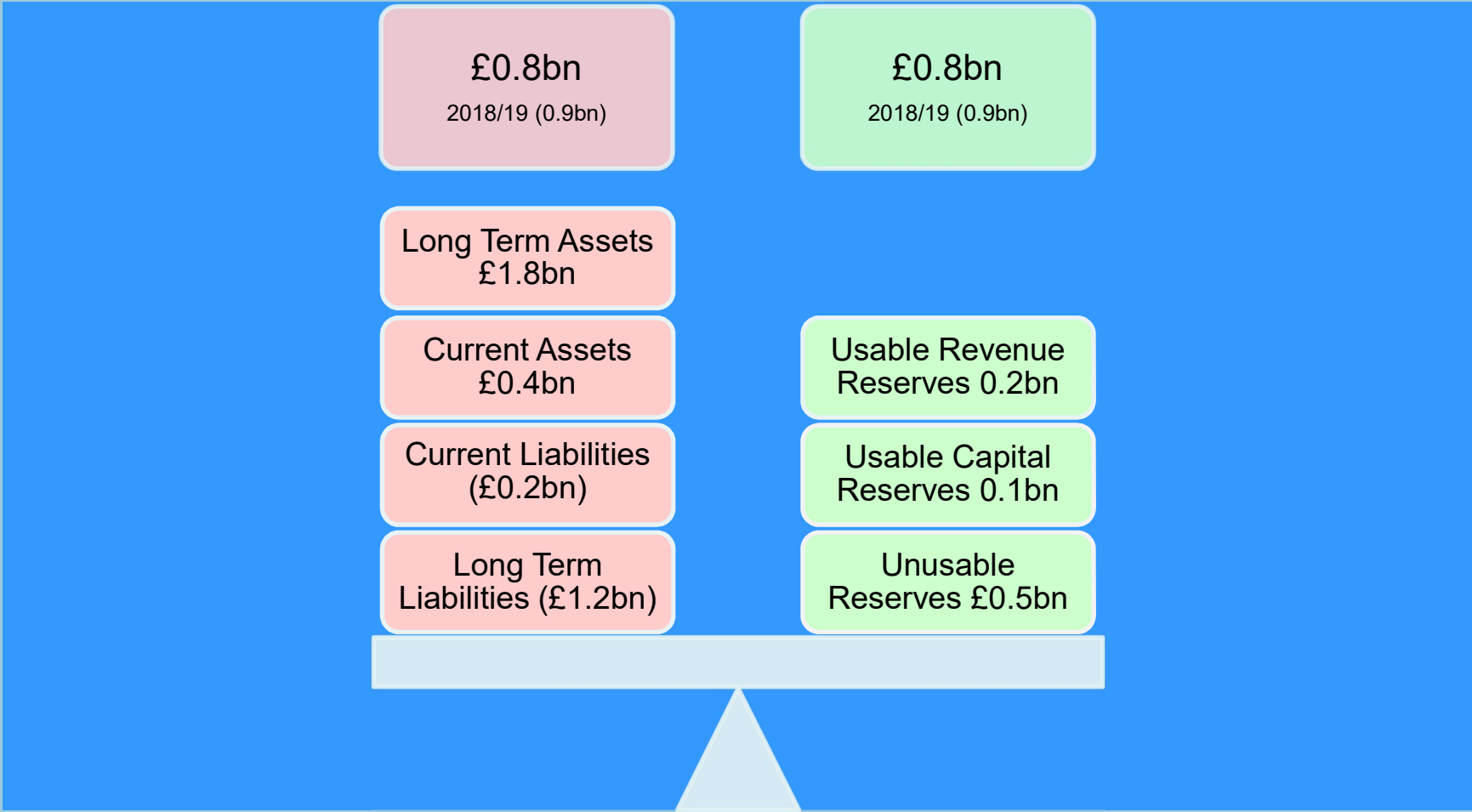
- MTRS Reserve up £0.5m to £21.3m Uncommitted balance £8.0m (£5m now allocated as a contribution towards additional cost of Covid)
- Sports & Leisure Sites Maint. up £0.5m to £1.7m Will fund known maintenance liabilities
- Lakeside Maint. up £2.2m to £2.2m Will fund known maintenance liabilities
- Property Investment Reserve up £2.4m to £4.8m Mitigation of risk from fall in Inv. Property values
- Revenue Reserve For Capital up £5.4m to £41.6m Fully committed or earmarked for catalytic schemes
- Property Re-Investment Reserve up £5.5m to £17.4m Set aside as financing for replacement investment properties
- COVID-19 Reserve up £6.0m to £6.0m Govt. Grant paid March 2020. Expenditure will be incurred 2020/21

- All Other Reserves up (net) by £0.9m to £32.7m

- General Fund Balance remains at £23.0m Higher than minimum level due to budget uncertainties – in accordance with budget strategy
- City Deal Reserve remains at £24.6m Govt. Grant relating to Tipner Regeneration
- Highways Maintenance Commuted Sums Remains at £9.3m Future highways maintenance that will be undertaken within the Highways PFI

Councils Net Worth – 0.84bn (2018/19 0.87bn)

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Summary

- Transfer to General Fund Reserve of £0.0m
- Overall Improvement in PCC Forecast General Fund Financial Position by 2021/22 of £0.3m

Emerging Audit Issues

- Narrative Statement - Impact of COVID-19

It was stated that the Council has so far been awarded government grants of £14m, leaving a shortfall of £18m. In October the Government received a further tranche of government grant of £5m. As a consequence the Council has now been awarded government grants of £19m leaving a shortfall of £7m.

- Statement of Accounting Policies (Note 1)

It was stated that the net total impact of COVID-19 on the General Reserves is currently estimated to be a reduction of £18m. In October the Government received a further tranche of government grant of £5m. As a consequence the net total impact of COVID-19 on the General Reserves is now estimated to be a reduction of £7m.

- Expenditure and Income Analysed by Nature (Note 8)

The analysis of expenditure was incorrect. Employee benefits expenses are £1,756,000 more than stated, other services expenses are £6,159,000 less than stated, and depreciation, amortisation, impairment, revaluations are £4,403,000 more than stated. Total expenditure is correctly stated at £642,130,000.

- Operating Leases - City Council as Lessee (Note 37)

Future rent payments on Limberline Industrial Estate were miscalculated. As a consequence total minimum lease payments were understated by £5,468,000 with the correct total being £33,992,000. The total rents including contingent rents were also understated by £5,468,000 with the correct total being £60,318,000.

- The external Audit is ongoing

Recommendations to G&A&S

- The Statement of Accounts must be approved by 30th November. Agenda item on 20th November meeting will be the approval of the Statement of Accounts 2019/20
- Delegation to Chair to Approve any further changes

Questions?

Agenda Item 8

Title of meeting:	Governance and Audit and Standards Committee Cabinet City Council
Date of meeting:	Governance and Audit and Standards Committee 20 th November 2020 Cabinet 1 st December 2020 City Council 8 th December
Subject:	Treasury Management Mid-Year Review 2020/21
Report by:	Chris Ward, Director of Finance and Resources (Section 151 Officer)
Wards affected:	All
Key decision:	No
Full Council decision:	Yes

1. Executive Summary

This report outlines the Council's performance against the treasury management indicators approved by the City Council on 17th March 2020.

The Council borrowed £60m in quarter 1 of 2020/21. No further borrowing was undertaken in quarter 2 of 2020/21.

Investment returns have continued to be on a downward trend in line with the likelihood that increases in Bank Rate are unlikely to occur before 2023.

2. Purpose of report

The purpose of the report is to inform members and the wider community of the Council's Treasury Management position, ie. its borrowing and cash investments at 30th September 2020 and of the risks attached to that position.

Whilst the Council has a portfolio of investment properties and some equity shares which were acquired through the capital programme; these do not in themselves form part of the treasury management function.

3. Recommendations

It is recommended that the following be noted:

- 3.1 That the Council's Treasury Management activities have remained within the Treasury Management Policy 2020/21 in the period up to 30th September 2020.
- 3.2 That the actual Treasury Management indicators as at 30th September 2020 set out in Appendix A be noted.

4. Background

The Council's treasury management operations encompass the following:

- Cash flow forecasting (both daily balances and longer term forecasting)
- Investing surplus funds in approved cash investments
- Borrowing to finance short term cash deficits and capital payments
- Management of debt (including rescheduling and ensuring an even maturity profile)

The key risks associated with the Council's treasury management operations are:

- Credit risk - ie. that the Council is not repaid, with due interest in full, on the day repayment is due
- Liquidity risk - ie. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs
- Interest rate risk - that the Council fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the Council has budgeted
- Maturity (or refinancing risk) - this relates to the Council's borrowing or capital financing activities, and is the risk that the Council is unable to repay or replace its maturing funding arrangements on appropriate terms
- Procedures (or systems) risk - ie. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud or error

The treasury management budget accounts for a significant proportion of the Council's overall budget.

The Council's Treasury Management Policy aims to manage risk whilst optimising costs and returns. The Council monitors and measures its treasury management position against the indicators described in this report. Treasury management monitoring reports are brought to the Governance and Audit and Standards Committee for scrutiny.

The Governance and Audit and Standards Committee noted the recommendations to Council contained within the Treasury Management Policy 2020/21 on 3rd March 2020. The City Council approved the Treasury Management Policy 2020/21 on 17th March 2020.

5. Reasons for Recommendations

To highlight any variance from the approved Treasury Management Policy and to note any subsequent actions.

To provide assurance that the Council's treasury management activities are effectively managed.

6. Integrated impact assessment

An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right

7. Legal Implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Director of Finance and Resources (Section 151 Officer) comments

All financial considerations are contained within the body of the report and the attached appendices.

.....
Signed by Director of Finance and Resources (Section 151 Officer)

Appendices:

Appendix A: Treasury Management Mid-Year Review 2020/21

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

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

<u>Title of document</u>	Location
1 Treasury Management Records	Financial Services

APPENDIX A**TREASURY MANAGEMENT MID-YEAR REVIEW 2020/21****A1. SUMMARY OF TREASURY MANAGEMENT INDICATORS**

The City Council originally approved the authorised limit (the maximum amount of borrowing permitted by the Council) and the operational boundary (the maximum amount of borrowing that is expected) on 11th February 2020. The Council's debt at 30th September was as follows:

Prudential Indicator	Limit £m	Actual £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	883	786
Operational Boundary - the maximum amount of borrowing that is expected	868	786

The maturity structure of the Council's fixed rate borrowing was:

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	10%	20%	30%	30%	40%	40%
Actual proportion of loans maturing	1%	1%	4%	11%	18%	7%	31%	27%

The maturity structure of the Council's variable rate borrowing was:

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	10%	20%	30%	30%	30%	30%
Actual proportion of loans maturing	2%	2%	6%	11%	22%	24%	19%	14%

Surplus cash invested for periods longer than 365 days at 30th September 2020 was:

	Limit	Quarter 2 Actual
	£m	£m
Maturing after 31/3/2021	117	80
Maturing after 31/3/2022	50	38
Maturing after 31/3/2023	50	20

A2. GOVERNANCE

The Treasury Management Policy approved by the City Council on 17th March 2020 provides the framework within which treasury management activities are undertaken.

There have been no breaches of these policies during 2020/21 up to the period ending 30th September 2020.

A3. BORROWING ACTIVITY

Gilt yields had already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields initially spiked upwards in March, we have seen yields fall sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March, and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. At the close on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were only at 0.76% and the 50 year at 0.60%.

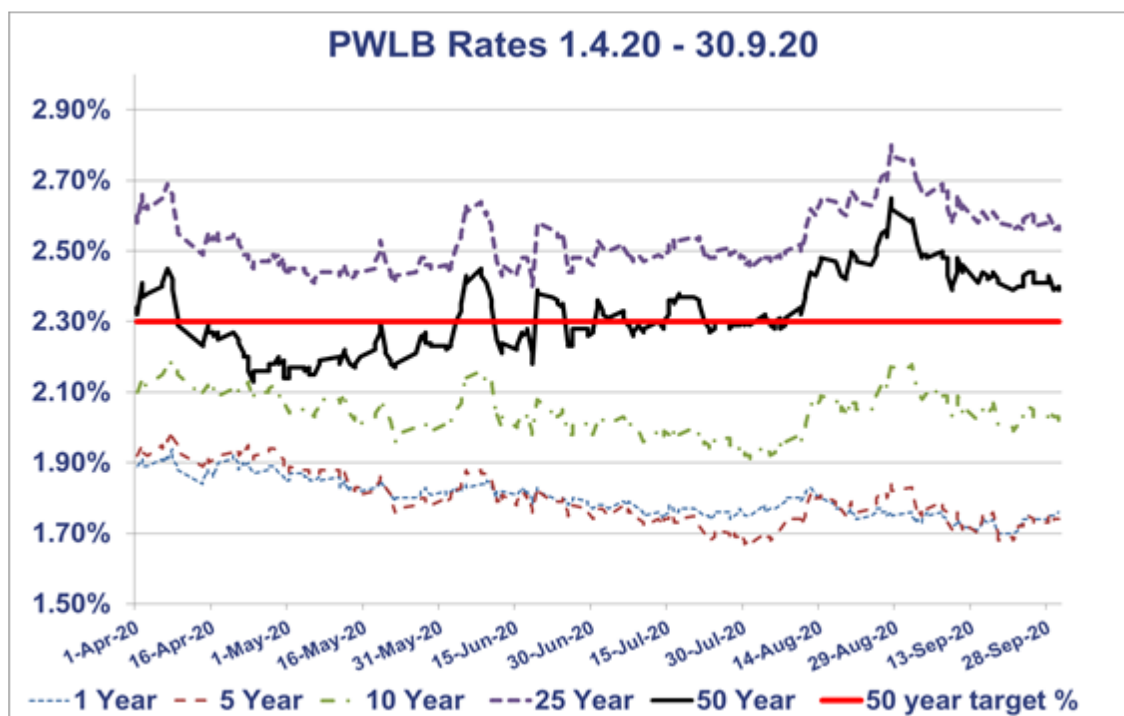
From the local authority borrowing perspective, HM Treasury imposed two changes of margins over gilt yields for Public Works Loans Board (PWLB) rates in 2019/20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. At the same time the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; the HM Treasury consultation was initially due to end on 4th June, but that date was subsequently put back to 31st July. To date, the outcomes of the consultation have yet to be announced but it is clear that HM Treasury will most likely no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the primary aim is to generate an income stream (assets for yield). The definition of such commercial activity in the consultation is vague.

Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

The Council qualifies to borrow from the PWLB at the certainty rate for both General Fund and Housing Revenue Account purposes. It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the HM Treasury consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

There has not been a great deal of volatility in PWLB rates since the start of the financial year, apart from a more significant spike up during the second half of August into early September. This is shown in the graph below.



There is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period.

£60m was borrowed from the PWLB at the HRA certainty rate in the first quarter of 2020/21 to fund the HRA capital programme. This was because PWLB rates were very low and because the Council may not be able to access funding from the PWLB in future because of its commercial activities. These loans were all for £20m and are repayable in 50 years at maturity. These loans have an average interest rate of 1.17%.

Whereas this authority has previously relied on the PWLB as its main source of funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. Various financial institutions have entered the market and made products available to local authorities. However, the market has yet to settle down. Members will be updated as this area evolves.

The Municipal Bonds Agency plans to offer loans to local authorities in 2020. This Authority may make use of this new source of borrowing as and when appropriate.

At the start of the year, the Council had £30m of short term loans to help fund the payment of 3 years' of employer's pension contributions in advance in return for a discount. These loans were repaid in the first quarter of 2020/21.

The Council's gross borrowing at 30th September 2020 of £786m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council) of £883m and also within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £868m.

The Council plans for gross borrowing to have a reasonably even maturity profile. This is to ensure that the Council does not need to replace large amounts of maturing borrowing when interest rates could be unfavourable.

The actual maturity profile of the Council's borrowing is within the limits contained within the Council's Treasury Management Policy (see paragraph A1).

Early Redemption of Borrowing

Debt rescheduling opportunities have been limited in the current economic climate and following the various increases in the margins added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the quarter ended 30th September 2020 no debt rescheduling was undertaken.

With the exception of two loans all the Council's borrowings to finance capital expenditure are fixed rate and fixed term loans. This reduces interest rate risk and provides a high degree of budget certainty.

The Council's borrowing portfolio is kept under review to identify if and when it would be financially beneficial to repay any specific loans early. Repaying borrowing early invariably results in a premium (early repayment charges) by the PWLB that are sufficiently large to make early repayment of borrowing financially unattractive to the Council.

No debt rescheduling or early repayment of debt has been undertaken during the two quarters of 2020/21 as it has not been financially advantageous for the Council to do so.

A4. INVESTMENT ACTIVITY

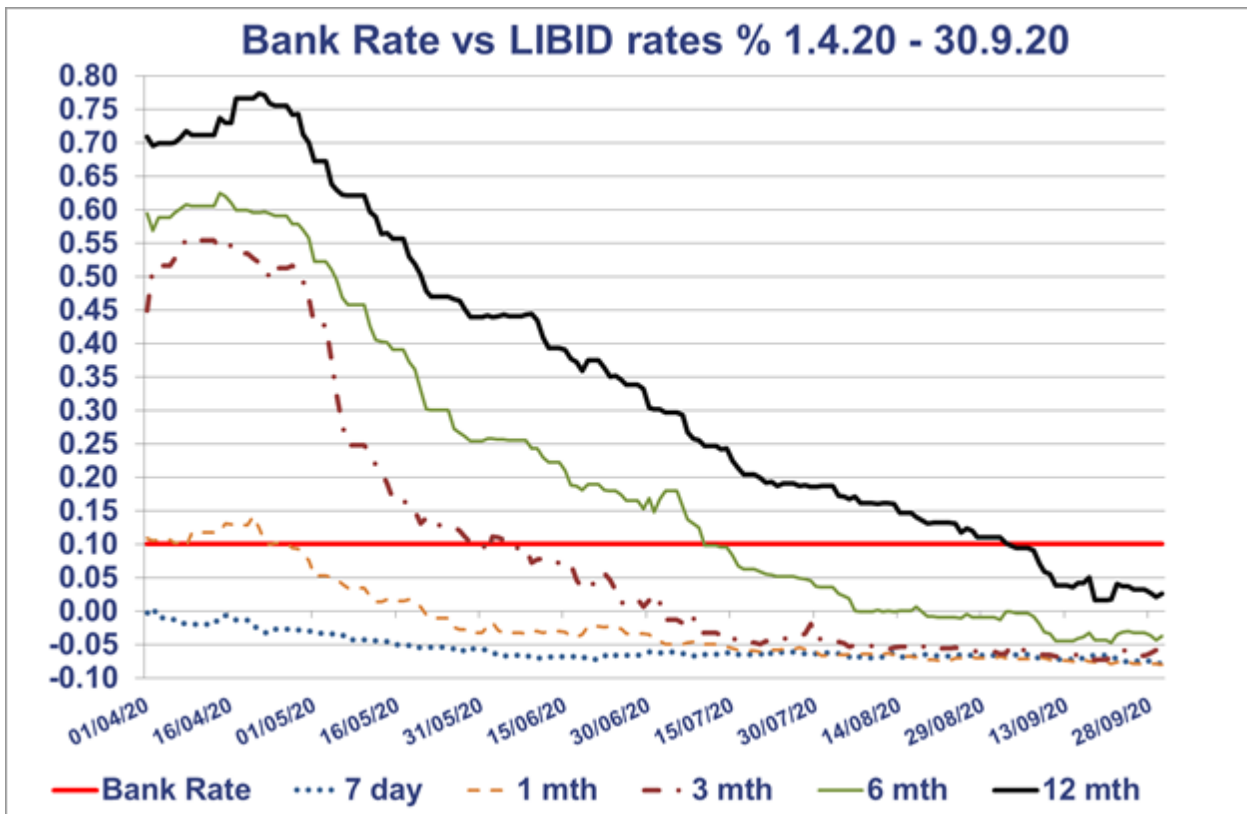
Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the quarter ended 30th June 2020, due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks. However, during Q1 and Q2 2020, banks did make provisions for expected credit losses and the rating changes reflected these provisions. As we move into the next quarters ahead, more information will emerge on actual levels of credit losses. This has the potential to cause rating agencies to revisit their initial rating adjustments later in 2020. These adjustments could be negative or positive, although it should also be borne in mind that UK banks went into this pandemic with strong balance sheets. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". They stated that, in their assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the Monetary Policy Committee's (MPC) central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on negative watch, but with a small number of actual downgrades.

Although credit default swap (CDS) prices (these are market indicators of credit risk) for UK banks spiked upwards at the end of March / early April due to the liquidity crisis throughout financial markets, CDS prices have returned to average levels since then, although they are still elevated compared to end-February.

Uncertainty over Brexit caused the MPC to leave Bank Rate unchanged during 2019 and at its January 2020 meeting. However, since then the coronavirus outbreak has transformed the economic landscape: in March, the MPC took emergency action twice to cut Bank Rate first to 0.25%, and then to 0.10%.

Actual market investment rates (London Interbank Bid rate) are shown in the graph below.



It is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before 2023, investment returns are expected to remain low.

The Council's cash investment portfolio consists of the following.

	Portfolio at 31st March 2020	Return in 2019/20	Portfolio at 30th June 2020	Annualised Return to 30th June 2020	Portfolio at 30th September 2020	Annualised Return to 30th September 2020
Plain vanilla interest bearing deposits	£375.7	0.98%	£374.2m	0.98%	£415.0m	0.92%
Tradable structured interest bearing deposits where the interest rate or the maturity date is determined by certain criteria	£9.7m	2.05%	£10.2m	22.55%	£10.3m	13.88%
Externally managed corporate bonds	£7.4m	-1.16%	£8.0m	24.28%	£8.0m	18.92%
Total	£392.8m	0.99%	£392.4m	2.02%	£433.3m	1.58%

Plain Vanilla Interest Bearing Deposits

As previously reported in the Treasury Management Outturn Report for 2019/20, the return on plain vanilla interest bearing deposits in 2019/20 was reduced through the need to provide £0.6m to write off the investment in Victory Energy Services Limited (VESL). The underlying return on these deposits in 2019/20 before providing for the write off of the investment in VESL was 1.16%. Therefore the underlying return on these investments has fallen by 24 basis points in the first half of 2020/21. This trend is expected to continue as when the current investments mature, it is unlikely that it will be possible to replace them with new investments paying the previous rates.

Tradable Structured Interest Bearing Deposits

This now consists of a single collared floating rate note purchased in June 2018 with a nominal value of £10m maturing in June 2023. Interest is paid at the 3 month London Inter Bank Offer Rate (LIBOR) with a floor of 1.60% and a cap of 3.50%. Interest is currently being paid at 1.60%.

At the end of 2019/20 this investment had a market value of £9.7m because the financial markets had become illiquid.

However, liquidity has returned to the financial markets and the guaranteed return of at least 1.60% is very attractive against the current 3 month LIBOR rate of 0.06%. Consequently at 30th September 2020 this investment had a market value of £10.3m. The market value of this investment should be £10m when it matures in June 2023.

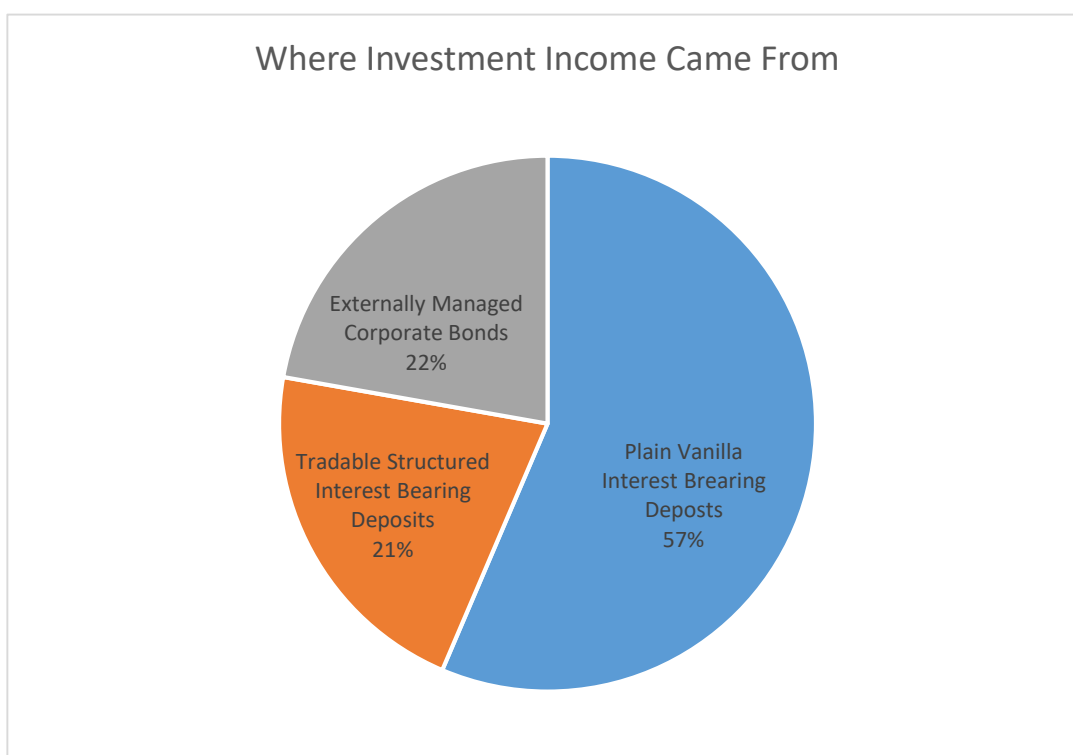
Externally Managed Corporate Bonds

The shortage of liquidity in the financial markets in March 2020 also caused the market value of corporate bonds to fall sharply. As a consequence of this the Council's externally managed corporate bonds made a negative return of 1.16% in 2019/20.

The corporate bond portfolio has been defensively managed and has no direct exposure to the energy, travel, hospitality, or non-food retail sectors. Now that liquidity has returned to the financial markets the value of the corporate bond portfolio has made a strong recovery.

Overall Return

The Council made an overall return of 1.56% on its cash investments in the first half of 2020/21. The chart below shows the source of the Council's cash investment income.



43% of the Council's investment income came from externally managed corporate bonds and tradable structured interest bearing deposits, despite these investments making up less than 5% of the investment portfolio. However, much of these gains result from a recovery in the market value of these investments and the level of returns experienced in the first quarter of 2020/21 is not being sustained.

Over the remainder of the year, the vast majority of the Council's investment returns will come from plain vanilla interest bearing deposits which make up over 95% of the investment portfolio. The returns on this type of investment are falling in line with market interest rates.

Given these factors, the return on the Council's investments over the remainder of the year is likely to be around 1%.

A5. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

The Councils net debt position at 30th September 2020 is summarised in the table below.

	Principal	Average Interest Rate	Interest to 30th September 2020
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£786m	3.44%	£13.5m
Investments	(£433m)	(1.58%)	(£3.2m)
Net Debt	£353m		£10.3m

*Although the Council's investments were £433m at 30th September 2020, the average sum invested over this period was £404m.



Title of meeting:	Governance & Audit & Standards Committee
Date of meeting:	20 November 2020 14:00
Subject:	PCC companies - Shareholder Committee terms of reference
Report by:	City Solicitor
Wards affected:	all
Key decision:	No
Full Council decision:	No

1. Purpose of report

In accordance with the Cabinet meeting of 26 March 2020 and the recommendation... *the City Solicitor prepares and drafts a protocol - by the Governance and Audit Committee as a reference and guide for the overall corporate governance structure (i.e. company structure and board composition) relating to PCC owned companies and incorporated within the PCC's constitution.*

This report sets out the detail and terms of reference to be included within the constitution and adopted by the to be incorporated Shareholder Committee.

2. Recommendations

- i. Approve the Shareholder Committee terms of reference at appendix A and delegate to the City Solicitor they are incorporated within the Council's constitution; and
- ii. Note the Local Government Lawyer best practice guidance (at appendix B) and delegation provided to the City Solicitor to work with all PCC owned companies to ensure the necessary constitutional changed and guidance is on boarded by the Shareholder Committee post incorporation.

3. Background

A report was taken to and approved by cabinet on 26 March 2020 (the Report") at link (<https://democracy.portsmouth.gov.uk/documents/s26711/PCC%20Company%20Directors%20report.pdf>) the purpose of which was to provide Members with advice on the board composition of companies to which the Council is the sole shareholder and in particular to approve the necessary constitutional internal decision making structures in terms of exercising the Council shareholder function going forward.

The Report noted and drew down from best practice guidance and expert external legal advice in terms of local authority companies generally as well as the legal responsibilities of company directors whilst seeking to operate in a collaborative and transparent manner.

Crucially the Report highlighted the importance of the Shareholder - the Council and the way in which the Council can exercise such Shareholder Function.

4. Reasons for recommendations

Following the Ravelin Group cabinet report dated 26 February 2019 - the Council's internal Legal Service carried out a review of the current structure of Council owned companies.

Local authorities have begun to act more commercially when it comes to carrying out service functions and in order to address continuing financial cuts to service provision. As such, other appropriate vehicles for delivery are necessary.

The General power of competence under the Localism Act¹ allows for local authorities to trade and charge for services for a commercial purpose provided this is done so through the appropriate separate legal entity. The basis for this is to provide an appropriate vehicle to enable company activity that is effective, legally accountable and transparent.

Following on from the above there have been, a number of "*lessons learnt*" reviews carried out nationally. In response to best the practice lessons learnt reviews - in January 2016, the Cabinet Office published *Guidance for Directors of Companies Fully or partly owned by the Public Sector*. Following on from the Guidance the *Lawyers in Local Government Group* worked up an appropriate model,(attached at appendix B - ("the Code")) to assist local authorities to work their way through difficult issues arising when setting up a wholly and/or party owned company.

The Code sets out a detailed best practice approach to the practical implications of how a Council as a (shareholder) member of a company might make decisions relating to that company through a separate **Council shareholder committee** providing oversight from a shareholder's perspective of the company's business and take relevant decisions on "*reserved matters*".

As such, necessary constitutional updates are required to ensure national best practice guidance is adopted to assist in ensuring all Council companies are legally accountable and transparent.

5. Integrated impact assessment

5.1 An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right

6. Legal implications

6.1 Legal implications are contained within the body of this report.

7. Director of Finance's comments

¹ Section 3 and section 4

7.1 There are no direct financial implications of the recommendations within this report.

.....
Signed by:

Appendices:

- Appendix A - Shareholder Committee terms of reference
- Appendix B - The Lawyers in Local Government Group ("LLG") the Code of Practice (committee structure and officer example)

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

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

Title of document	Location

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

.....
Signed by:

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Appendix A

SHAREHOLDER COMMITTEE

TERMS OF REFERENCE

1. Purpose of the Shareholder Committee

1.1. The purpose of the Shareholder Committee is to exercise the shareholder functions of the Council for Ravelin Group companies and provide the strategic oversight and guidance and to represent the Council as Shareholder Representative at meetings with the companies.

1.2. In particular, the Shareholder Committee will be responsible for:

1.2.1. Incorporating and winding down of any Ravelin Group companies, including constitutional matters such as:-

1.2.1.1. Varying Articles of Association;

1.2.1.2. Changing the names of companies and registered addresses;

1.2.2. Approving Shareholders Agreements;

1.2.3. Approving the annual Business Plans of the companies;

1.2.4. Approving any action which is inconsistent with the approved Business Plan;

1.2.5. Monitoring performance of the companies against the approved Business Plans;

1.2.6. In consultation with Section 151 Officer, approving any investment of funds together with any terms of loan agreement to Ravelin Group companies;

1.2.7. Appointing and dismissing of directors;

1.2.8. Approving major business transactions;

1.2.9. Approving the issuing or reduction of share capital;

1.2.10. Approving the appointing of the auditors; and

1.2.11. Approving any other matter which is defined as the Reserved Matter in Shareholders Agreements.

2. Membership

2.1. The Shareholder Committee shall consist of the Leader together with 5 members drawn from the elected Members of the Council. Other members of the Council (who are not directors of any of the companies concerned) may attend and vote as substitutes in the event that an appointed member of the Shareholder Committee is unable to attend

2.2. The membership of the Shareholder Committee will reflect the political proportionality of the Full Council.

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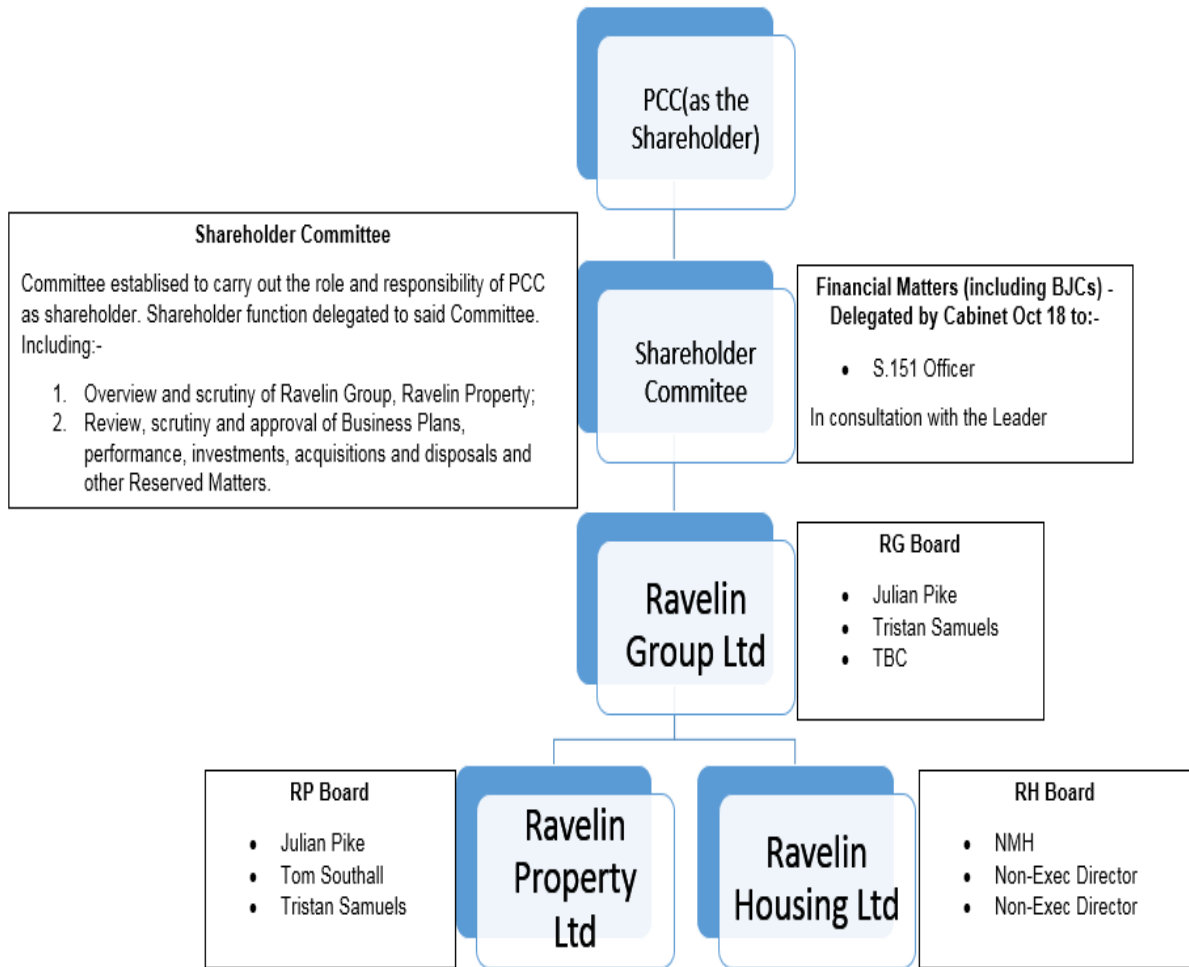
- 2.3. As the role of the Shareholder Committee is to advise and discharge executive functions in relation to company matters and to exercise the role of the Shareholder Representative, only Cabinet members can be members of the Shareholder Committee with voting rights, although other Cabinet members and non-Cabinet members can be invited to attend, without voting rights.
- 2.4. The Leader will be the chairman of the Shareholder Committee and will have the casting vote in the event that a majority decision cannot be reached. Vice Chair will be selected from the elected members of the Shareholder Committee.
- 2.5. The necessary quorum for the meeting will be no less than 2 elected and vote rights bearing Members of the Council present.

3. Meetings

- 3.1. The Shareholder Committee will meet as regularly as required to ensure proper exercise of its functions but not less than quarterly.
- 3.2. The members of the Shareholder Committee may invite the Chief Executive, Section 151 Officer, City Solicitor, Officer of the Council or their deputies and any other persons as required who will be the advisers to the Shareholder Committee.
- 3.3. It is anticipated that the Directors of Ravelin Group companies will be invited if their input is required to make an informed decision.

4. Administration

- 4.1. The agenda of the meeting together with any supporting documentation will be provided to the members of the Shareholder Committee at least 5 working days in advance. This notice period may be waived if the Chair of the Shareholder Committee so agrees.
- 4.2. The meetings of the Shareholder Committee will be minuted which will subsequently be approved at the next meeting.



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**THE GOVERNANCE OF COUNCIL INTERESTS IN COMPANIES
- CODE OF PRACTICE (cabinet and scrutiny example)**

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The Governance of Council Interests in Companies - Code of Practice

1. Introduction

- 1.1 The purpose of this Code of Practice is to provide a reference point to the Council [local authority] and interested parties (councillors, officers, company representatives and contractors) in understanding the requirements of the Council in setting up a local authority company, and in particular a local authority trading company (LATC), and how the governance arrangements for that company will work once set up.
- 1.2 The OECD/G20 helps define corporate governance by saying that it:
- *“involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders; and*
 - *“provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined”.¹*
- 1.3 This Code of Practice therefore sets out how the Council will normally go about managing those relationships and ensuring that a company will go on to deliver the objectives established for it by the Council. It also briefly explains and makes reference to the law and basic requirements placed upon a local authority in establishing or owning companies.
- 1.4 The Code of Practice is set out as:
- an explanatory background;
 - a set of guiding principles; and then
 - a set of working expectations.
- 1.5 Attached, as appendices, are also key documents used in this process.

2. Background

(a) Local authority trading and the local authority trading company ²

- 2.1 There are long-established powers for councils to trade. Among the most important is the Local Authorities (Goods and Services) Act 1970, which authorises councils to enter into agreements with other local authorities and other designated public bodies, for the provision of goods, materials and administrative, professional and technical services, for the use of vehicles, plant and apparatus and associated staff, and for the carrying out of maintenance. Payment terms are set out in an agreement. These are not limited to cost

¹ “G20/OECD Principles of Corporate Governance - OECD Report to G20 Finance Ministers and Central Bank Governors” - September 2015

² Source: Local Government Association Briefing

recovery. The 1970 Act is the bedrock of trading within the public sector and there is substantial experience of its operation. But the Act is limited in scope. For example, it does not allow trading with the private sector or the public at large. Other established trading powers are specific in nature, such as the Local Government (Miscellaneous Provisions) Act 1976, which enables councils to enter into agreements with anyone for the use of spare computer capacity.

- 2.2 The Local Government Act 2003 added new possibilities to charge for services, to both provide extra services at cost and to trade with the private sector. Under the 2003 Act, the Government authorizes trading by means of a trading order. The Trading Order currently in force was made in 2009³, which permits all councils in England to trade or "to do for a commercial purpose", anything which they are authorised to do for the purpose of carrying on their ordinary functions, which includes use of the granted general power of competence.
- 2.3 Under that 2003 Act and Trading Order, as augmented by the Localism Act 2011, for a local authority to exercise the power to do things for a commercial purpose (which the authority couldn't otherwise do), then it must be done through a company. Councils are thus enabled to establish a company by which they can trade with the private sector for a profit - that is to enter into commercial contracts. The profits may then go back to the council through dividends or service charges.
- 2.4 The reason given for this legislative requirement was that:
"local authorities and their trading arms have to be on a level playing field with the private and commercial sector in both a positive and negative way. They should not be at a disadvantage, but they should not have an outstanding advantage. Taxation is a particular issue. It is right to carry forward the requirement that such bodies should be companies and trading as such."
- 2.5 To exercise the power to establish a company and trade, a local authority must first approve a business case ('a comprehensive statement') covering:
- the objectives of the business;
 - the investment and other resources required to achieve those objectives;
 - any risks the business might face and how significant these risks are; and
 - the expected financial results of the business, together with any other relevant outcomes that the business is expected to achieve.
- 2.6 That business case is then implemented and refreshed by way of a business plan, which should be updated and submitted for approval each year, to guide the company in carrying out its continuing activities.
- 2.7 The local authority must also recover the costs of any accommodation, goods, services, staff and anything else they supply to the company under any agreement or arrangement. This is an absolute requirement and distinct from

³ *The Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009*

the various rules on procurement or providing state aid.

- 2.8 Other important legal, commercial and financial considerations for councils or fire and rescue authorities setting up a trading company include company law issues, the cost of bidding for contracts, tax liability (corporation tax and VAT), EU procurement law and state aid rules and employment law (TUPE and pensions).

(b) The Local Authority Company

- 2.9 The kind of company that must be utilized to enable the Council to trade in this way is defined in Part V of the Local Government and Housing Act 1989 ('LGHA 89'). That lists:
- a company limited by shares;
 - a company limited by guarantee and not having a share capital;
 - a company limited by guarantee and having a share capital;
 - an unlimited company;
 - a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965.
- 2.10 The LGHA 89, and the current Order⁴ made under it, places local authority companies into one of three categories, being controlled or influenced by the local authority (a regulated company) or a company in which the local authority has a minority interest. It then goes on to set out a number of additional restrictions and requirements to which the local authority and the regulated company (or society) and any subsidiaries must adhere.
- 2.11 The reasons for these extra requirements were described by the Government of the day, when setting out the reasons for the LGHA 89, as being that:
- "when a company is effectively under the control of a local authority... the most significant controls that Parliament has laid down for the conduct of local authorities should apply to that company."*
- 2.12 These requirements cover issues of audit, payments, delivery of information to the authority's members and identification. For example, a regulated company is required to mention that it is a company controlled, or as the case may be influenced, by a local authority, naming the relevant authority or authorities, on all relevant documents, which are defined by reference to the companies legislation and are the same documents on which a company is required to disclose its registered name⁵, such as business letters, its order forms and its websites.

(c) Other Local Authority Entities

⁴ *The Local Authorities (Companies) Order 1995*

⁵ "...being of any kind mentioned in paragraphs (a) to (d) of section 349(1) of the 1985 Act" - now Regulation 24 of the Company, Limited Liability Partnership and Business (Names and Trading Disclosures) Regulations 2015 made under the replacement section 82 of the 2006 Act.

- 2.13 If it isn't needed as a means by which it can trade, a local authority is free to involve itself in any one of a number of different forms of sole and joint ventures to best assist it in achieving its goals and aims, which may or may not involve establishing an entity that has a separate legal personality. These may also be as above, companies as defined by the Companies Act and which can include an industrial or provident society or a community interest company. They may alternatively be established as a distinct trust, with the council or appointees as trustee. They may be embodied as limited liability partnerships. They may also exist simply as unincorporated partnerships, with other public bodies or private persons (that can often act as if they were a distinct entity), such as the Local Economic Partnership.
- 2.14 There are certain rules yet to be brought into force, and the Secretary of State holds reserve powers, that may require, prohibit or regulate the taking of specified actions by entities connected with a local authority and those appointed to or representing the local authority at them⁶. In this respect:
- "entity" means any entity, whether or not a legal person, and
 - an entity is stated to be "connected with" a local authority if financial information about that entity must be included in the local authority's statement of accounts.
- 2.15 Whilst this Code of Practice will apply to all companies in which the Council has an interest, it may not be as appropriate for the governance of the Council's relationship with other entities which it is connected to, is a member of or has an interest in. In these instances, regard will be had to this Code but its application will be determined on a case by case basis.

Limited Liability Partnerships

- 2.16 Particular amongst these is the limited liability partnership (LLP), which are an increasingly common entity of which local authorities are a member. A limited liability partnership is a body corporate (with legal personality separate from that of its members) and is formed of 'two or more persons associated for carrying on a lawful business with a view to profit'⁷. An LLP will also file annual accounts and be registered with Companies House.
- 2.17 LLP's have a number of advantages for local authorities, including significant tax advantages and that it lies outside of the regulation applicable to local authority trading companies. Unlike a company, however, an LLP is not a vehicle by which the Council can undertake commercial activities via the general power of competence under the Localism Act 2011 or the charging and trading powers under the Local Government Act 2003, so a key disadvantage is that it must rely on specific local government powers and the vires of the functions included must be carefully considered. An LLP is also not suitable for later conversion to a company or to be formed as a charitable body. An LLP is, therefore, very well suited to forming joint ventures to deliver local government

⁶ Section 212 Local Government and Public Involvement in Health Act 2007

⁷ Limited Liability Partnership Act 2000

functions such as land and property development⁸.

- 2.18 The cross-application of this Code will therefore particularly apply to limited liability partnerships (LLP), where the management agreement will reflect many of the elements of the articles or shareholder agreement referred to below. This will include, for example, the same reserved decision making in respect of appointment of representatives to the partnership management board, receipt of financial and other information by the Council and that the venture is limited to only undertaking its business in accordance with the approved business plan.

3. Guidance

- 3.1 In exercising the power to establish a local authority trading company (LATC), local authorities were obliged under the 2003 Act to have regard to Statutory Guidance. The “*General Power for Local Authorities to Trade in Function Related Activities Through a Company*”⁹ was issued and it is to this document that this and other councils in establishing the companies have had regard to.
- 3.2 That Statutory Guidance is now out of date, however, and was withdrawn as of 17th June 2014. Whilst new guidance is awaited, the withdrawn guidance nevertheless remains useful and largely very relevant. Where it is still relevant, this Code has had regard to it and, where associated with the principles of this Code, accompanying direct quotes from the Government Guidance are included throughout.
- 3.3 All listed companies are subject to the *UK Corporate Governance Code*¹⁰. The Council will expect all of its companies and their subsidiaries, and indeed any company with which it is associated, to adopt the “comply or explain” approach of the UK Corporate Governance Code as a demonstration of best practice in corporate governance.
- 3.4 The *Corporate Governance Guidance and Principles for Unlisted Companies in the UK*¹¹ and also the *Corporate Governance Handbook*¹² have additionally been utilised in the compiling of this Code of Practice.
- 3.5 The Council itself has adopted a NNN Council Code of Corporate Governance and the approach of this Code of Practice will fall to be associated with the provisions of that Code.

4. Principles of Governance of Council Companies

- 4.1 In setting out the governance relationship between the Council and its

⁸ “*Structures for Collaboration and Shared Services: Technical Notes*” (DCLG)

⁹ First published: 29 July 2004: UK Govt Archive

¹⁰ September 2014: Financial Reporting Council

¹¹ First edition: November 2010: Institute of Directors (IoD) and European Confederation of Directors’ Associations (ecoDa)

¹² Third edition 2013: Institute of Chartered Secretaries and Administrators (ICSA)

companies, group of companies and organisations it has invested in, this Code has three key underpinning principles. These are as follows, preceded by a relevant quote on the subject from the Government Guidance.

I. Controls and Freedoms

The Guidance:

- 4.2 *“A successful company will be one that works alongside the authority in delivering joint objectives. The authority will have to consider how to balance the need to assist the company to achieve its trading objectives with the principles of transparency, accountability and probity.”*

The Principles

- 4.3 It is recognised that, whilst appreciating this should not be unfettered, a trading company needs to be given commercial freedoms to enable it to succeed.
- 4.4 Accordingly, governance arrangements will seek to ensure that:
- the company will be provided with sufficient freedoms to achieve its objectives; and
 - the Council will retain sufficient controls to ensure that its investment is protected, that appropriate social and financial returns on investment can be obtained and that the trading activities of the companies are conducted in accordance with the values of the Council.

II. Relationship, Integrity and Accountability

The Guidance:

- 4.5 *“It is important that trading companies can operate on an equal footing with their competitors, but it is equally important that they are not used as a device for inhibiting legitimate public access to information about local government and local government services.”*

The Principles

- 4.6 It is recognised that, whilst appreciating its procedures operate in a way that protects the company’s commercial interests, those procedures should ensure that the Council can carry out its functions as an investor, as a trustee of public funds and a local authority committed to both due responsibility for the exercise of its functions and for providing a vision for the City.
- 4.7 Accordingly, governance arrangements will seek to ensure that:
- the executive can make investment decisions based upon complete and accurate consideration of business cases and business plans;

- the executive can evaluate social and financial benefits and returns on investment; and
- the Council's overview and scrutiny committees are able to exercise their powers in relation to the executive's decision making

in a manner that ensures the companies can provide full and frank financial and business reporting against their business plans and be open to an appropriate level of scrutiny without fear of commercial confidentiality being breached.

III. Understanding of role

The Guidance:

- 4.8 *"A trading company will be a separate legal entity from a local authority. It will derive its legal authority from its Memorandum of Association and the Companies Acts. Its directors and officers will derive their authority from the articles of association and the law relating to companies.*

...

"Those "who are appointed directors will participate directly in the activities of the company, and are answerable to the company and have the powers and duties of company directors whilst they do so.

...

"Local authority members and officers should be aware of potential conflicts of interest when carrying out their roles for their authorities, or when acting as directors of trading companies."

The Principles

- 4.9 It is recognised that, as company ventures have a separate legal personality to the local authority, the success and good governance of the company venture depends upon those involved understanding their role and responsibilities collectively and individually.
- 4.10 Accordingly, governance arrangements will seek to ensure that there is sufficient induction, training and other materials in place so that:
- their legal duties;
 - stewardship of assets;
 - the provisions of the governing documents;
 - the external environment; and
 - the total structure of the organizations and the venture
- are appropriately understood by Members of the Council in their role as part of the executive or of overview and scrutiny, by officers of the Council associated with these duties and by the directors of the companies.

5. Ownership and control of the company

- 5.1 NNN Council, the local authority as a corporate body, will be a member of the company. The membership will be as guarantor if a company limited by guarantee or, as will be the norm if a LATC, the holder of shares (perhaps the only share) in a company limited by shares.
- 5.2 The rights and duties as a member of the company will, however, almost always fall to be exercised as an executive responsibility. This means that decisions to be taken by the Council as a member of the company (as shareholder) fall to be decided on by the elected Mayor/Leader. In the normal way, therefore, these functions may be delegated by the Mayor/Leader to the cabinet or an officer and will be subject to key decision and access to information rules, call-in and review by overview and scrutiny committee.
- 5.3 For ease of use, where decisions are to be taken by the local authority as a member of a company, those decisions are referred to in this Code as being taken by 'the executive'.
- 5.4 The authority of the shareholder is exercised where decisions of the company are reserved for approval of the executive before they can be implemented, but also directly in the form of a shareholder's written resolution or at the company's general meetings.
- 5.5 At the company general meetings the executive will be present and voting as a member of the company, where this presence and voting will be in the form of a single person known as the 'shareholder representative'.
- 5.6 Decisions to be made by the executive, rather than left to the company itself, are known as 'reserved matters'. Reserved matters cover such things as the approval of the company's annual business plan or mid-year amendments to it, the appointment of directors, certain key financing decisions and so forth. These are established either through agreement with the company, known as a shareholders agreement, or as set out in the company's governing articles of association.
- 5.7 The relationship between the local authority (and the companies it is a member of) is governed by these and other key documents that are required to establish a local authority company, and a trading company in particular. In establishing the local authority's company and then in governing the relationship with what is now a separate legal personality, the executive will need to put in place the following documents:
- The **business case** which assesses the risk involved in the proposed trading enterprise and decides whether or not it should be established and proceed to trade; the 'comprehensive statement' referred to in 2009 Order. It starts the process of business planning.
 - The **articles of association**, or the memorandum and articles of association as it used to be called, which is the constitution of the company. This is the legal documents required to set up a limited company and give details of its

name, aims and authorised share capital, conduct of meetings, appointment of directors and registered office.

- The **shareholders agreement**, or management agreement, which sets out the rights of the Council as the sole or co-shareholder and how it can exercise those rights. It details the powers of the board of the company and how and when the shareholder might influence those powers. It is important to note that the shareholder agreement is capable of being developed and added to as the company develops.
- The **financial agreements** which are the commercial agreements that set out what assistance is to be provided and on what terms. This may be purely financial, such as a direct loan or a facility such as a parental guarantee, and made on commercial terms. It may also be in the form of goods, services or staff to be provided and set out in a resourcing agreement or a service level agreement, which is likely to be on a service charge or cost recovery basis. The agreements may require regular and detailed access to information and financial reporting to the Council and/or holding company.
- The **business plan** which sets out the objectives of the business, how they are to be achieved and standards met adjusted in the light of experience and changing circumstances. It is a comprehensive analysis of the business situation at a particular point in time. It is often referred to as the annual business plan because it is expected to be submitted for shareholder approval annually.

5.8 A model shareholder agreement for use with the holding company, setting out the principal decisions reserved for the executive's approval, including subsidiaries of the company as a group, is outlined at Appendix 2.

6. Shareholder Group or Board

6.1 The structure described above creates a governance process whereby, so far as appropriate under this Code's Principles, the company is left to get on with its business. Following the UK Corporate Governance Code, the companies will utilise a unified board, with appropriate non-executive directors providing outside expert help and with board committees (such as an audit committee) to provide oversight and ensure delivery.

6.2 The Mayor/Leader, in turn, will seek to inform the executive decisions and to hold the company to account by utilising a reflection of the company board structure in the form of a Shareholder Group, including external expertise and sub-groups. The role of this group is to provide the necessary oversight from a shareholder's perspective that the parameters, policies and boundaries that the executive as the shareholder has established for the company are being adhered to. In it, the Mayor/Leader (or his or her appointee) remains the decision maker but the Group act as advisors in the making of those executive decisions.

6.3 Such a Shareholder Group is considered to be an effective means of

governance of the companies. This is because it allows for decision making and discussion in an informed atmosphere, which also provides the executive with:

- a mechanism to communicate the shareholders' views to the company; and
- a means to evaluate the effectiveness of the company board and the delivery of the company performance against strategic objectives.

6.4 It is intended that the Mayor/Leader (or his/her appointee) will make most decisions concerning the executive's role in respect of company interests at meetings of the Shareholder Group (in a similar manner to the Mayor/Leader's executive decisions made at various partnership boards and the health and well-being board). It is envisaged that key decisions concerning the companies will, however, still normally be made at meetings of the Cabinet.

6.5 The Terms of Reference for the Shareholder Group are set out at Appendix 1.

7. Scrutiny

7.1 The overview and scrutiny committees have a significant role to play to ensure that the company is able, and the executive has properly required the company, to make sufficient returns for the investment to be worthwhile and, indeed, ensure that the social objects set for it are not lost in the drive towards the overriding and essential requirement for the company to be economically successful.

7.2 It is the executive, the Mayor/Leader and Cabinet, who is responsible for approving the business case to establish a company, of setting the right balance between the economic, social and environmental objects of a company when it is established and of subsequently exercising the Council's powers as shareholder.

7.3 Once established, the company must then get on with the business of delivering the objectives with which it has been tasked, within the parameters set for it. It must be otherwise free, however, to operate in its own best interests and to compete on an even basis with its competitors in the marketplace.

7.4 Again, it is the executive, either generally or when considering reserved matters, to whom the company must answer and by whom it is held to account for its success, or failure, in achieving the objectives set for it.

7.5 The key role of overview and scrutiny is then to advise the executive and hold it to account on behalf of the wider public interest and its role within the Council.

7.6 This creates a flow of information and accountability, in which

- the company needs to get on with the business of delivery;
- the executive needs to make the company decisions reserved to it and to hold the company to account for performing against them; and

- Members as part of overview and scrutiny need to advise on or scrutinise the decisions of the executive.

This needs to be done in a trading environment that requires them all to make speedy and reactive commercial decisions and to handle often highly valuable and commercially sensitive information.

- 7.7 Overview and Scrutiny, to fulfil its role, requires a means of access to the sensitive information and debate that inform the Shareholder Group and the Mayor/Leader's decision making, without either oppressing that process or endangering its own strictly non-executive role.
- 7.8 To this end it is considered that the Chair of Overview and Scrutiny Management Board (OSM) is best placed to be involved, use his/her knowledge of this committee and its remit to sift the information and be alert to those matters that need to be brought to the overview and scrutiny committees' attention and be investigated further. Accordingly, the Chair will be invited to the forum created to handle this crucial information flow, the Shareholder Group. To retain the independence required of the OSM Chair, this is not membership as direct advisor as part of the decision making, but as an informed observer.
- 7.9 Overview and Scrutiny committees may then review any matter concerning the Council's companies and make proper use of its full powers and function, having had these matters drawn to its attention by, and with the benefit of, a fully informed Chair.
- 7.10 In carrying out any such review, the Government Guidance states that:
"The local authority should ensure that its overview and scrutiny committees are able to exercise their powers in relation to the discharge of local authority functions under the relevant legislation.
- 7.11 To this end, the legal framework for local authority companies includes an express requirement concerning the provision of information to Members of the Council, which reflects the similar provision in relation to local authorities generally. This states that a local authority regulated company "*shall provide to a Member of the Council such information about the affairs of the company as the member reasonably requires for the proper discharge of his duties.*"¹³
- 7.12 The exception here is that the company cannot be required to provide information in breach of any enactment, or of an obligation owed to any person.
- 7.13 It is also worth noting that, where a Member or an officer has become a member or director of a local authority company, the local authority must make arrangements for them to be open to questioning about the company's activities by Members of the Council at a meeting of the authority, or a committee or sub-committee, or by cabinet members in the course of proceedings of the cabinet or a committee of the cabinet. Importantly, the Member or officer is not required

¹³ Article 7, Local Authorities (Companies) Order 1995

to disclose confidential information about the company.

8. Investment and Finance

- 8.1 The balance of how each company venture may be financed will be assessed and set out in the business case, required at the very beginning of the venture and the incorporation of the company as described above, and in business plans as made or amended and agreed by the executive. Each decision will take into account state aid implications and such matters as where legislative and regulatory requirements demand full cost recovery or standard commercial terms to be applied.
- 8.2 Where the purpose of a company is to better utilise assets owned by the Council, for example, the principal investment in the company is likely to be those assets. The assets may then be made use of by the company through their being transferred in their entirety from the Council to the company or by being provided to the company by the Council under a lease, loan or use agreement.
- 8.3 Investment at the initial stage of a trading company will normally be by way of purchase of share capital, either directly in the company or, more likely, via NNN Holding Limited, often together with a loan or loan facility on commercial terms. This is to fund those costs which arise at the start of the company or company joint venture, including the holding company and its subsidiaries, to cover initial set up costs, working capital costs and collateral costs. For purchased company interests, share value should reflect the fair value of the going concern.
- 8.4 Direct investment may well also be by various other forms of agreement. This may be for the supply of monies, directly as a loan or under a parental guarantee, credit agreement, facility and so forth, which should be on standard commercial terms. It may also be for the supply of goods, property or staff, as described above and at section 12 below.

9. Companies Structure

- 9.1 The principal means by which the local authority will normally own and hold interests in its trading and other forms of company will be through a single company (the Company), acting as a holding company. Wherever practically feasible and advantageous to the authority, each of the individual company ventures will then be a subsidiary of the single company and they will operate together as part of the a group of companies.
- 9.2 The primary objective of a group structure is that the Company, as a holding company, is able to provide a single point of focus for leadership of the authority's commercial activity, communication with the authority, utilisation of shared resources and as a forum for strategic decision-making across the group. Its board of directors will set the overall strategy in relation to the

activities of its subsidiaries.

- 9.3 In doing so, the board of the Company will also sign off all business plans and hold its subsidiaries to account. The executive, supported by the Shareholder Group, will approve any decisions that would have an effect on the shareholder's rights and hold the group of companies to account as a whole.
- 9.4 The subsidiary companies will, therefore, be expected to adopt a common 'group' approach, with the managing director and the Company's board holding a clear leadership role on behalf of the authority. This will, for example, involve the group of companies:
- (a) using existing Council policies and strategies where appropriate and the company and its subsidiaries, wherever practicable;
 - (b) adopting a common approach across the group on branding and its finance, ethics and procurement policies and practices;
 - (c) being required by the authority to have the holding company approve the procurement and authorisation of spend levels set by each company for its directors and staff; and
 - (d) also having more detailed matters to be set as a common approach by the company for itself and its subsidiaries by the holding company, where it considers that that will increase effectiveness, efficiency and engender common understanding, which is likely to include such things as group financial procedure rules, fraud and whistle-blowing policies, decision making levels and procedures, capability and disciplinary procedures, health and safety practices and so forth.
- 9.5 The Company will similarly provide a natural home and conduit for support and control roles that will be common across the group, such as company secretarial services, procurement, finance and human resources. These fall into two groups. The first is those services that would be better employed directly by the holding company, such as financial and payroll systems for example. The other are those provided as managed services to the companies by the Council, under a resourcing agreement (or service level agreement), because this is more cost effective, appropriate or is a demand of the shareholder, such as HR or company secretarial and legal services. (This is described further at section 12 below).
- 9.6 The secondary purpose is financial, in that group companies can share VAT registration where appropriate and can be treated as holding group accounts. The latter means that reporting is as one set of accounts and that profit and loss can be distributed across the group, setting one off against another, as might be desired to meet the aims and values set for the group.
- 9.7 The executive will approve the appointment of auditors for the group and its accounts will appear as part of the Council's financial statements.

10. The Company's Board

- 10.1 The Government Guidance advised that a local authority company will be run

by its board of directors answerable to the shareholders, in accordance with the articles of association, and goes on to suggest that a board of between 3 and 8 directors is most likely to be practical (although this will be dependent on the circumstances of each company). The participating Local Authority should be represented on the board of its company.

10.2 The representatives who are appointed directors by the executive will participate directly in the activities of the company and are answerable to the company and have the powers and duties of company directors whilst they do so. Accordingly, the Government Guidance goes on to suggest that this requirement in a trading company and the accompanying conflict of interests that may arise means that officers are better placed to fulfil this role.

10.3 Whilst it will therefore be the norm that officers, not members, will be appointed as directors, this should not prevent the Council from appointing Members as directors where that is considered to be in the best interests of the company and the Council. If Members of the Council are appointed as directors of a company, the following paragraphs should be borne in mind and, in particular, that the member notes that:

- Conflicts of interest may be waived by a company but, as a matter of public law, never in the decision making of the Council: the Council Member / company director will always have a conflict of interest when it comes to their role as a councillor that must be resolved and resolved in the favour of the company. A Member as director, therefore, must not be a party to making a decision of the Council affecting the company, but may proffer evidence or advice to the Council on the company's behalf when invited to do so.
- Liaison should be through the key Member and/or officer concerning the company and the Council's activities
- The Member's Code of Conduct applies to a Member's activity as a director, except only where it directly conflicts with the interests of the company and, where that may be the case, the potential conflict notified to the company secretary and to the Council's monitoring officer.
- The only monies or other remuneration to be received by the Member in connection with the directorship will be as a special responsibility allowance (SRA) given by the Council to the amount of the corresponding SRA in the Members' Allowances Scheme.

10.4 As the holding company for the group, the Company board of directors will be formed of:

- Executive directors, being:
 - the managing director;
 - with the option of the managing directors of the authority's principal trading companies where appropriate
- Non-executive directors, being:
 - a chief officer of the Council (Chair of the Board);

- independent person(s) appointed to bring oversight, experience and skills that would be advantageous and appropriate for the companies;
 - other senior officers of the Council as appropriate; and
 - Members of the Council if considered advantageous and appropriate.
- 10.5 The chair of the board of directors, as Council appointee, will have a deciding say to be exercised through means of a 'golden vote' procedure on the board. This approach is to ensure that the Council's officers will always be able to out-vote the directly appointed directors on the holding company. Such matters as the quorum requirement for board meetings of the company and the like will be expected to reflect that objective.
- 10.6 The Company will have two standing committees, which will be as follows:
- The Remuneration Committee, which will conduct appointments and remuneration decisions and recommendations to the Council (where an appointment is not wholly reserved to the Council).
 - The Audit Committee, which will fulfil the same role and function as the Council's Audit Committee, the outputs of which will feed into the holding company board, the company business plans and the Council's own statement of accounts and Annual Governance Statement.
- 10.7 In respect of the individual wholly owned trading companies, non-trading (Teckal) companies and joint ventures, the appointment of directors of the company will be as are considered best to meet the requirements of the subsidiary or venture concerned.
- 10.8 Where an officer or Member is placed on a company board, he or she will be provided with an indemnity for their actions in that role. This is provided for under the Local Authorities (Indemnities for Members and Officers) Order 2004. It should be noted, however, that any such indemnity only covers actions taken honestly and in good faith.
- 10.9 Appointments of an officer as a company director will be of the relevant post or office of the Council, not as an individual. This will be reflected within each of the companies' articles in that if any one of the Council appointed directors ceases to be an employee, office holder or Member of the Council, as applicable, then they automatically also cease to be a director of the company.
- 10.10 The remuneration of officers of the Council appointed directors to a company controlled or influenced by the Council, other than permitted expenses, will be met by the Council and not the company. This is because, whilst that director's overriding duty is to the company, that person's role as director on the company board is only because of, and in fulfilment of, their employment as an officer of the Council, for which they are remunerated by the Council under that contract of employment. The position on the company is an inherent part of their job, for which payment is not to be made twice, directly or by different persons, for the same work.

- 10.11 That is not to say that the Council would fail to recognise that the position of an officer appointed as a company director or company officer will include distinct and potentially onerous additional responsibilities. Rather, it is that it is the Council that needs to recognise the value of those responsibilities, through a job evaluation process or other means by which the Council sets salaries, in considering any review of an officer's remuneration. To do otherwise risks a future action against the officer or the Council and, if a payment were made to a Council officer by the company that was considered to be a fee or reward accepted under the colour of his or her office or employment other than his proper remuneration, that officer may also have committed a criminal offence¹⁴.
- 10.12 The law requires that, where a Member of the Council is a director of a regulated company, the Member may only receive payment for that directorship up to the amount payable for that role under the authority's Special Responsibility Allowance (SRA)¹⁵, set as a result of the recommendation of the Independent Remuneration Panel¹⁶. These payments may be made by the company directly or, more normally and as would be the case here, by the Council for reasons of simplicity, accounting and accountability.
- 10.13 The view behind this is that the regulated company is, in fact, simply a part of the Council. In the same way that there is a bar on Members of the Council being employees, the philosophy runs akin to that for officers in that the Council may not pay a councillor for any other activities they may carry out as a Member of the Council other than through their SRA.

11. Conflicts of interest

- 11.1 The Government Guidance states that "*Local authority members and officers should be aware of potential conflicts of interest when carrying out their roles for their authorities, or when acting as directors of trading companies.*"
- 11.2 There will always arise a point where, in matters of reporting, contractual discussion, investment requests or resourcing agreements, there is potential for the same person to be a decision maker or advisor both for the Council and the company.
- 11.3 This is a reflection of the position of each company as a separate legal entity and that the directors of each company are subject to. As the Corporate Governance Guidance and Principles puts it:

'An important principle of Company Law is that directors have a duty to promote the success of the company as a whole. They are specifically prohibited from directing the activities of the company in favour of themselves or particular shareholders and/ or stakeholders'.

¹⁴ s117(2) of the Local Government Act 1972

¹⁵ Article 5 of the Local Authorities (Companies) Order 1995

¹⁶ Reg 21 of the Local Authorities (Members' Allowances) (England) Regulations 2003.

- 11.4 Appendix 3 sets out a briefing for directors' duties.
- 11.5 An essential element of this in terms of this Code is that, whilst changes to the Companies Act and current articles of association allow for appropriate provisions dealing with conflicts of interest and the ability of company directors to authorise them, an officer of the Council or a Member can never waive their duty to act in the public interest in exercising their responsibility for functions of the Authority. This will, on occasion therefore, create an inescapable conflict of interest between someone's role as a Member or, more likely, as an officer of the Council and as a director of a company, of which those involved need to be aware.
- 11.6 There are also natural points where it is expected that the Council and one of its trading companies will take a different approach. In this respect, the Government Guidance states that:
- “The local authority should consider appointing a ‘contract officer’ and/or ‘contract member’ with primary responsibility for liaison between the company and the authority, and for access to information about it. It might wish to place limitations on these individuals to ensure that they are fully accountable to the authority as a whole and to ensure that the Section 151 Officer/Monitoring Officer countersigns major decisions about the company’s operations.”*
- 11.7 This is the role of the Shareholder Group. In support of that function, the Council will appoint a lead authority and client-side officer to lead on managing contractual arrangements with the companies and in holding of the companies to account.
- 11.8 A certain form of wholly owned local authority also exist to provide services directly to or for the Council (known as a ‘Teckal’ company). The relationship between the authority and the company are set out in a contract for services. In this scenario, clear separation is required between commissioner and provider and there will be a requirement for further support to be provided, beyond the position of lead authority and client officer.
- 11.9 Officers placed into any of these roles are, at some point, likely to find themselves in a position where they are, or are negatively seen to be, acting against the interest of their own authority and also challenging the Council as their employers or senior managers to whom they might normally answer to. As a result of such activities, their performance in the company or actions they feel are required of them by the company, some of those officers may even find themselves in a position where it is no longer felt tenable that they can be appointed by the authority as a director of a company. The Council as an employer, from the viewpoint of both the executive and overview and scrutiny, wholly recognises these unusual positions that such officers may find themselves. The Council therefore undertakes that no officer will suffer any ill affect to his or her employment or career with the authority for fulfilling these activities to the best of their ability or in undertaking these actions asked of them.

12. Managed Services, Support Arrangements and Employees

- 12.1 The authority is required under the 2009 regulations to recover the costs of any accommodation, goods, services, staff or any other thing it supplies to a company in pursuance of any agreement, or arrangement in place. It cannot subsidise the operation of the company in this way.
- 12.2 The Government Guidance in addition clarifies that
- “Because the power to trade is subject to a restriction requiring it to be exercised through a company, it follows that the authority has the requisite power to enter into arrangements with a company in order for the trading power ... to be exercised. It is not necessary therefore, for the company to be expressly designated as a public body under the Local Authorities (Goods and Services) Act 1970, in order for the authority to be able to provide it with staff, goods etc, for the purpose of exercising the power to trade.”*
- 12.3 This means that the authority may enter into an agreement with the companies to provide services at cost or as a surplus service charge and that staff time and resources utilized for company purposes should be carefully accounted for. Where this is done at cost, which shall be the norm, it is helpfully stated in the Guidance that the approach should be in accordance with the CIPFA definition of ‘whole cost’.
- 12.4 Referred to above as the ‘managed services’, those areas of the authority’s resources so utilized might include project management, initial set-up staff, human resources, audit, business continuity, communications, procurement, legal or finance and so on. Equally, it may be that the main source of staffing for the company’s trading activities comes from Council staff seconded for that purpose, be that whole time or on a client by client, job by job basis. It is for the company and the executive to agree what level of authority led resource is appropriate, should or could be delivered to the company in each case. The parameters of those services can be agreed through a Resourcing Agreement or what is known as a Service Level Agreement (SLA).
- 12.5 The authority as shareholder, however, does need to be assured that there are effective and robust support services in place in certain areas. This is to satisfy itself that sufficient standards of operational governance, legal and company secretarial compliance and effective financial management within the company are adhered to. The authority will reserve to itself the ability under the Shareholder Agreement to insist on supplying these services to a controlled company, at cost, if it feels that these standards are not otherwise being met or are not in its opinion likely to be met.
- 12.6 In particular, the Company Secretary role should have a consistent approach across all of the companies or group of companies. This is to ensure consistent interpretation of the compliance standards across the companies and of the governance relationship between the companies and between the companies

and the Council. In addition, it ensures that appropriate and proper intelligence is shared across the companies and the authority. In relation to all authority controlled companies and their subsidiaries, therefore, the position of company secretary as an officer (not a director) of each company in the group is to be fulfilled by the Council's Monitoring Officer, being the equivalent corporate governance, assurance and general counsel position for the Council. All company secretarial and general counsel duties for the companies will then be carried out through that office, either directly or through the position of an assistant company secretary, with the exception of where a conflict of interest is identified and is acknowledged by that officer.

- 12.7 With the exception of those staff supplied by or seconded from the authority for trading purposes or for managed services as described above, it is expected that staff of the companies will be directly recruited and employed by the companies themselves. Where the business case includes that staff are transferred this will be subject to full reporting and then consultation and requirements under TUPE legislation and guidance.

Adopted in accordance with the Cabinet decision of DDD

[To be] Presented to the NNN Council Audit Committee of DDD.

NNN COUNCIL
SHAREHOLDER GROUP - TERMS OF REFERENCE

Overview

The purpose of the Shareholder Group is to advise the Mayor/Leader in the exercise of his/her responsibility for the Council's functions as corporate shareholder of a company or group of companies and in their role to represent the interests of the Council as Shareholder Representative at meetings of a company.

Decision making

The Mayor/Leader (or other Cabinet member appointed by the Mayor/Leader for this purpose) may make decisions concerning companies in which the Council is or is proposed to become a shareholder, either:

- (a) in Cabinet; or
- (b) in the presence of the Shareholder Group.

Membership and Arrangements

The Shareholder Group shall consist of the Mayor/Leader (or other Cabinet member appointed by the Mayor/Leader for this purpose) in the presence of:

- (a) Such Members of the Cabinet as are appointed by the Mayor/Leader (which shall be at least two);
- (b) Two co-opted members, who will be independent persons providing relevant expertise and appointed on merit (but which process may be carried out in association with the Audit Committee's arrangements for co-opted appointments); and
- (c) Relevant senior officers of the Council as are appointed by the head of paid service (or their deputies); together with
- (d) The Chair of Overview and Scrutiny Management Board, as a Member of the Council from outside of the Cabinet, to act in the capacity of Observer.

The Service Director for Finance (s151 officer) and the Service Director for Legal and Democratic Services (monitoring officer), or their deputies, will be advisors to the Group to provide open and strong advice.

Other members of the Cabinet (who are not directors of any of the companies concerned) may attend and vote as substitutes in the event that an appointed member of the Shareholder Group is unable to attend

Restrictions on Membership

As the Shareholder Group is to advise and discharge executive functions in relation to company matters and the role of the Shareholder Representative, only Cabinet members can be members of the Shareholder Group with voting rights, although other Cabinet members and non-Cabinet members can be invited to attend, without voting rights.

Meetings

The Shareholder Group shall meet on a basis agreed by itself and normally in private.

The quorum shall be the Mayor/Leader (or other Cabinet member appointed by the Mayor/Leader for this purpose) in the presence of a minimum of:

- (a) one other Cabinet Member;
- (b) one independent co-optee; and
- (c) one senior officer appointed to the Group (or their appointed deputy).

An invitation to attend must have been provided to the Chair of Overview and Scrutiny Management Board/Committee (or their nominated deputy) at least three clear days in advance of the meeting taking place. This notice period may be waived if the Chair of Overview and Scrutiny Management Board/Committee (or their nominated deputy) so agrees.

An invitation to attend must also have been provided to the section 151 officer and the monitoring officer (or their nominated deputies), which will normally be at least three clear days in advance of the meeting taking place.

The Mayor/Leader (or appointee) will chair the Shareholder Group and a Vice Chair will be selected from the elected members of the Shareholder Group.

Sub Groups

To assist it in its functions the Shareholder Group:

1. may establish and consult standing sub-groups, such as might be required in respect of:
 - (a) Audit and Risk;
 - (b) Ethical practices; or
 - (c) Nominations and Remuneration
2. may establish and consult ad-hoc or task and finish sub-groups in respect of any matter; and
3. may establish and consult stakeholder groups on any particular aspect or the generality of the objects of the trading companies

A sub-group or stakeholder group may contain such co-opted members, advisors or observers as the Shareholder Group sees fit.

Functions

1. Monitor the performance of a company in relation to its Business Plan and, in particular, the company's performance:
 - (a) in financial matters
 - (b) against the social goals of the company as set out in the company's Objects, Business Case or Business Plan; and
 - (c) against the values of the Council.

2. Evaluate and monitor:
 - (a) the financial and social returns on investment (be that shareholding, loans or direct investment); and
 - (b) risks and opportunities including those arising from joint ventures or new opportunities.

3. Consider matters reserved to the Council for shareholder approval, such as:
 - (a) Varying Articles of Association
 - (b) Varying ownership and structure
 - (c) Variations to shares (number of, rights, etc.
 - (d) Entering contracts that:
 - (i) have a material effect on NNN Council business (including other companies within the group)
 - (ii) are outside of the business plan or do not relate to the business
 - (iii) significant in relation to the size of the business, the business plan, etc.
 - (e) Material legal proceedings outside of ordinary business
 - (f) Adopting and amending business plans each year and strategic plans (3 years)
 - (g) Appointment, removal and the remuneration of directors (members of the company board)
 - (h) Selection of the chair of the board
 - (i) Appointment of auditors
 - (j) Issue of dividendsas more particularly set out in a company's Articles of Association or Shareholder Agreement.

Relationship

The Shareholder Group as it considers appropriate in accordance with its functions described above, may:

1. report and make formal recommendations to the Mayor/Leader, directly or to

- the wider Cabinet;
2. make reports to and consult Overview and Scrutiny (including full Council) or
 3. make reports to and consult the Audit Committee, in relation to that Committee's particular functions.

OUTLINE OF THE
SHAREHOLDER AND COMPANY AGREEMENT

1. DEFINITIONS AND INTERPRETATION
2. FINANCING THE COMPANY
3. DIVIDEND POLICY
4. SUBSIDIARIES
5. MANAGEMENT OF THE COMPANY
6. SHAREHOLDER GROUP
7. THE BUSINESS PLAN AND COMPLIANCE WITH THE BUSINESS PLAN
8. REPORTING AND ACCOUNTING MATTERS
9. BANKING ARRANGEMENTS
10. TERMINATION
11. UNLAWFUL FETTER ON THE COMPANY'S POWERS
12. ASSIGNMENT AND SUB-CONTRACTING
13. FURTHER ASSURANCE
14. REMEDIES AND WAIVERS
15. ENTIRE AGREEMENT
16. VARIATION
17. CONFLICT WITH THE ARTICLES
18. SEVERANCE
19. CONFIDENTIALITY
20. NOTICES
21. NO PARTNERSHIP OR AGENCY
21. COUNTERPARTS
22. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999
23. GOVERNING LAW AND JURISDICTION

Guidance Note to NNN Council Members and Officers when acting as
Directors of Council Companies

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Title of meeting:	Governance & Audit & Standards Committee
Date of meeting:	20 November 2020
Subject:	Compliance with Gifts & Hospitality protocol
Report by:	City Solicitor
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Purpose of report

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

2. Recommendations

- 2.1. That the Committee considers whether or not to make any recommendations for change.
- 2.2. That in the absence of any changes, the report is noted.

3. Background

- 3.1. The protocol for Gifts & Hospitality was approved by Standards Committee on 12 September 2007 subject to review and full approval on 31 March 2008. The protocol and Frequently Asked Questions have subsequently been regularly reviewed.
- 3.2. The protocol requires an annual report by the City Solicitor on compliance to enable this committee to make any necessary recommendations for change - this report addresses that requirement.
- 3.3. The Gifts & Hospitality policy is regularly reviewed and was last updated in 2020.

4. Reasons for recommendations

- 4.1. A breakdown of entries in the Gifts & Hospitality system are contained in the appendices to support the following assessments of protocol compliance.
- 4.2. The total number of entries for staff for the period 1 October 2019 - 30 September 2020 (via the Gifts & Hospitality software) is 157. A full data set is

available on request; specific data reports are enclosed with this report at the appendices.

The main requirements of the protocol are as follows:

4.3. Items which may be accepted

Under the protocol these items must be under £25 in value for gifts and under £40 in value for hospitality (£5 for staff in Adult Social Care). They must be given without ulterior motive. There should not be any danger of misinterpretation by the public and there must not be a frequent occurrence of repeat gifts.

4.4. Items which may not be accepted

These include:

- Where the value exceeds the limits noted above
- Gifts of cash (including vouchers)
- Gifts from persons with whom the Council is in contract negotiations (or could be) and those where we regulate or monitor services

4.5. For the period covering this report, the following will be considered in turn:

Gifts registered over £25 limit (Appendix 1)
Hospitality registered over £40 (Appendix 2)
Adult Social Care registered over £5 limit (Appendix 3)
Registrations of Cash & Vouchers (Appendix 4)
Donated Items (Appendix 5)

There do not appear to be any other entries other than set out below that do not adhere to the principles contained in the protocol.

Note that registrations by Members are contained in Appendix 6 but these are subject to a separate protocol - see paragraph 4.12

4.6. Gifts registered over £25 limit

The total number of entries registered for gifts over the £25 limit (Appendix 1) is 6. Of these

4.6.1. 3 gifts were accepted on the following grounds:

- 4.6.1.1. One gift was initially accepted but subsequently donated to the Lord Mayor's Appeal;
- 4.6.1.2. One gift was accepted as the donor is a known regular user of the Portsmouth History Centre and refusal was considered to cause offence;
- 4.6.1.3. One gift was a hospitality dinner to raise money for The D-Day Story; this provided a unique opportunity to meet potential donors and advocate for the museum.

4.6.2. The 3 remaining gifts were donated to a Housing Scheme, Lord Mayor's Appeal and Landport Community Garden.

4.7. Hospitality registered over £40 limit

The total number of entries registered for hospitality over the £40 limit (Appendix 2) is 21. Of these

4.7.1. 19 offers were accepted, which breaks down by service area as follows:

- 4.7.1.1. 2 offers for Finance
- 4.7.1.2. 11 offers for the Port
- 4.7.1.3. 3 offers for Regeneration
- 4.7.1.4. 2 offers for Culture
- 4.7.1.5. 1 offer for Public Health

Finance: both offers concerned hospitality on a visit to the Port of Antwerp to consider municipal owned ports on behalf of the Council.

Port:

1 entries concerned the Port of Antwerp as above;
4 entries concerned attendance at awards ceremonies where a contractor to the Port was shortlisted for an award;
2 entries concerned a networking opportunity;
1 entry was accepted but in the event was not attended as the officer was unwell
1 entry was accepted as it concerned potential new business into the Port;
2 entries concerned anniversary celebrations of a customer to the Port.

Regeneration:

1 entry concerned a networking charity event;
1 entry concerned a luncheon hosted by the appropriate professional body;
1 entry concerned a staff meal out - the restaurant owner offered the occasion as complimentary and staff made a cash donation in response.

Culture:

2 entries concern a D-Day event which was appropriate as the receivers are staff who manage the D-Day Story;

Public Health:

The entry concerns a free place in the 2020 Local Area Research Intelligence Association. The entry was allocated via prize draw and concerned an opportunity to improve research and intelligence practice.

4.8. Entries for Adult Social Care exceeding £5 limit

The total number of entries registered for Adult Social Care over the £5 limit (Appendix 3) is 8. Of these:

4.8.1. 3 items were donated (see Donated Gifts);

- 4.8.2. 1 item was rejected;
- 4.8.3. 4 items were accepted;
 - 4.8.3.1. 1 entry concerned a small value gift and to refuse could have distressed the client
 - 4.8.3.2. 1 entry concerned a book sent to the Council by a previous systems consultant to the Council
 - 4.8.3.3. 1 entry concerned a small gift in circumstances where the client insisted although an attempt to decline was made;
 - 4.8.3.4. 1 entry concerned a box of luxury chocolates which were donated to care home residents.

4.9. Entries for Cash and Vouchers registered

The total number of entries registered for cash and vouchers (Appendix 4) is 18. Of these:

- 4.9.1. 14 offers were rejected;
- 4.9.2. 4 offers were donated where attempts to reject were rebuffed.

4.10. Entries for Donated Gifts

The total number of entries registered for donated gifts (Appendix 5) is 21. Of these:

- 4.10.1. 12 have been donated to the Lord Mayor's Appeal;
- 4.10.2. 3 items were donated to an unspecified charitable fund;
- 4.10.3. 2 item was donated to the PCC Food Bank;
- 4.10.4. 2 item was donated to a housing scheme
- 4.10.5. 1 item was donated to Landport Community Garden
- 4.10.6. 1 item was shared amongst the staff team as the client was distressed that the item could not be accepted.

4.11. Portico Shipping Limited

Portico Shipping Limited is on a separate network to the Council and therefore not able to make entries on the Council's Gift and Hospitality system. Portico keeps its own register. If Members would like to see a copy of Portico's register they should enquire directly to the Finance Manager responsible for Portico.

4.12. Gifts and Hospitality for Members

Members are required to declare any gifts or hospitality from any single donor over the value of £50 as set out in the Councillors Code of Conduct section 4.1e and the Code of Conduct in respect of councillors and planning applications section 12.5.

Members' declarations for the period 1 October 2019 - 30 September 2020 are summarised in Appendix 6. Three hospitality entries have been logged for the period from three different local organisations, within the protocol limits.

5. Integrated impact assessment

An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

6. Legal implications

The City Solicitor's comments are embedded within this report.

7. Director of Finance's comments

There are no financial implications arising from the recommendations contained within this report.

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Signed by: City Solicitor

Appendices:

- Appendix 1 - Gifts over £25 limit*
- Appendix 2 - Hospitality over £40 limit*
- Appendix 3 - Adult Social Care over £5 limit*
- Appendix 4 - Registrations of cash and vouchers*
- Appendix 5 - Donated Gifts*
- Appendix 6 - Members' gifts and hospitality register

*Personal data has been redacted from these data sets.

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

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

Title of document	Location

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

.....
Signed by:

Appendix 1: Gifts over £25

Value	Specified Value	Classification	Receiver	Service	Date Received	Description	Sub Classification	Action	Donor Name	Known Donor Interests	Donor Minor?	Donated To	Donated To Other	Reason	Approver	Approved By Approver	Approver Decision Date	Approver Reason	Director
Over £25 (specify)	UNKNOWN	Gift	Denise Bastow	Regeneration	31/10/2019	INEOS BACKPACK AND TWO INEOS BASEBALL CAPS	Other	Donated	INEOS TEAM UK LTD		FALSE	Lord Mayor Appeal		Advised Ineos that I could not accept gifts personally but would donate to LM appeal which they agreed	Pam Turton				Tristan Samuels
	£50.00	Gift	Sharon Watling	Culture, Leisure & Regulatory Services	23/10/2019	£50 Customer Service Voucher as we loaned a Guillotine to them for a day for their tourism leaflets.	Cash / Voucher	Accepted	Wightlink		FALSE			Tried to reject it but unable to. Will give this to the Lord Mayors Appeal	Stephen Baily	Yes	23/10/2019	donated to Lord Mayors appeal	David Williams
	£30-£40	Gift	Di Cawood	Culture, Leisure & Regulatory Services	07/12/2019	Bottle of Armagnac, Duc de Seviac, France and bottle of Chablis, Louis Moreau 2017 given to the Portsmouth	Other	Accepted	REDACTED	Regular user of Portsmouth History Centre	FALSE			Colleague accepted as would cause offence if refused	Stephen Baily	Yes	23/12/2019	Refusal would offend	David Williams
	£29.99	Gift	Adam Hardwick	Housing, Neighbourhood and Building Services	17/12/2019	RSPB bird food gift box with feeders	Other	Donated	ECOSA Ltd	Ecological consultancy for PCC project work.	FALSE	Other	Landport Community Garden	Gift over £25 in value and the LCG would have a better use for it.	James Hill				David Williams
	£27.99	Gift	Sandra Perryman	Housing, Neighbourhood and Building Services	11/12/2019	Tower of treats - containing cakes, biscuits, chocolates	Other	Donated	Goldchem chemists	local chemist that delivers medication to the residents of Nicholson Gardens	FALSE	Other	Given to residents in the lounge / dining area on Xmas Day	Value of gift too high to be accepted, so given to residents of Nicholson Gardens	James Hill				David Williams
	£125	Gift	Felicity Wood	Culture, Leisure & Regulatory Services	10/10/2019	Invitation to fundraising dinner for The D-Day Story at Southwick House on 7th November 2019.	Other	Accepted	REDACTED	Trustee of The Portsmouth D-Day Museum Trust	FALSE			Accepted following discussion with line manager. The fundraising dinner is to raise money for The D-Day Story and will offer the opportunity to meet potential donors and advocate for the work of the museum.	Stephen Baily	Yes	23/12/2019	Refusal would offend	David Williams

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Appendix 2: Hospitality over £40

Value	Specified Value	Classification	Receiver	Service	Date Received	Description	Action	Donor Name	Known Donor Interests	Donor Minor?	Reason	Approver	Approved By Approver	Approver Decision Date	Approver Reason	Director
Over £40 (specify)	TOTAL £100 Lunch - £35 Dinner - £60 Gift bag - £5	Hospitality	Chris Ward	Finance and Revenues	03/10/2019	Lunch (meal and refreshment) and Dinner (meal and wine) on Thursday 03 October Gift bag of promotional items including a small box of six Belgian Chocolates.	Accepted	Port of Antwerp	Commercial Port	FALSE	Accepted as attending a three day visit to the Port of Antwerp on behalf of PCC (as Director of Finance). The accommodation was paid for by Portico and purpose of trip was to look at other municipal owned ports. Also a non-executive director for Portico however attendance was not as a member of Portico.	David Williams	Yes	24/12/2019	Working visit - within policy.	Natasha Edmunds
	TOTAL £100 Lunch - £35 Dinner - £60 Gift bag - £5	Hospitality	Chris Ward	Finance and Revenues	03/10/2019	Lunch (meal and refreshment) and Dinner (meal and wine) on Thursday 03 October Gift bag of promotional items including a small box of six Belgian Chocolates.	Accepted	Port of Antwerp	Commercial Port	FALSE	Accepted as attending a three day visit to the Port of Antwerp on behalf of PCC (as Director of Finance). The accommodation was paid for by Portico and purpose of trip was to look at other municipal owned ports. Also a non-executive director for Portico however attendance was not as a member of Portico.	David Williams	Yes	30/12/2019	Work related overseas visit	Natasha Edmunds
£80		Hospitality	Adrian Legg	Regeneration	24/02/2020	Invitation to PPA Annual Charity Dinner, Portsmouth Guildhall	Accepted	Omnia Environmental	Consultancy work	FALSE	Good networking charity event	Tristan Samuels	Yes	24/02/2020	As discussed this looks like a good networking event and in aid of a local charity, happy to support.	David Williams
£80		Hospitality	Andrew Williamson	Portsmouth International Port	12/11/2019	Attendance at Fire and Security Awards Gala Dinner	Accepted	Chief Executive Officer		FALSE	Contractor shortlisted for award	Mike Sellers	Yes	17/12/2019	Contractor shortlisted for award and to show support	David Williams
£80		Hospitality	Ian Palacio	Portsmouth International Port	03/10/2019	Lunch at Brebronnar Restaurant and dinner at Sir Anthony Van Dijk Restaurant	Rejected	REDACTED		FALSE	Ian was visiting the Port of Antwerp with the Port Director and Leader of the Council	Mike Sellers				David Williams
£80		Hospitality	Mike Sellers	Portsmouth International Port	03/10/2019	Lunch at Brebronnar Restaurant and dinner at Sir Anthony Van Dijk Restaurant	Accepted	REDACTED		FALSE	Invited by the Port of Antwerp to attend with the Leader of the Council	David Williams	Yes	24/12/2019	Working trip - within policy	Natasha Edmunds
£60		Hospitality	Ian Palacio	Portsmouth International Port	04/11/2019	Clusters Business Networking Dinner to be held in Southampton, venue to be confirmed	Accepted	MHI Vestas Offshore Wind, Dusager 4, 8200 Aarhus N Denmark	Existing customer	FALSE	Networking opportunity	Mike Sellers	Yes	05/12/2019	Approved by MS	David Williams
£60		Hospitality	Ian Palacio	Portsmouth International Port	01/10/2019	Invitation to 125th anniversary dinner	Accepted	Director (Marine), Empress Dock, Ocean Way, Southampton	Port has mutual customers and works with Williams Shipping to mutual benefit.	FALSE	As above	Mike Sellers	Yes	05/12/2019	Port has mutual customers and works with Williams Shipping to mutual benefit	David Williams
£50		Hospitality	Ian Diaper	Portsmouth International Port	07/02/2020	Southampton Sea Pie Supper at the Mike Channon Suite, St	Accepted	SCH Stevedores	Contractors at the Port	FALSE	Contractors	Mike Sellers	Yes	07/02/2020	Approved	David Williams
£50		Hospitality	Ian Palacio	Portsmouth International Port	07/02/2020	Southampton Sea Pie Supper at the Mike Channon Suite, St	Accepted	Solent Stevedores	Contractors used at the Port	FALSE	Contractors	Mike Sellers	Yes	07/02/2020	Approved	David Williams
£50		Hospitality	Ben McInnes	Portsmouth International Port	07/02/2020	Southampton Sea Pie Supper at the Mike Channon Suite, St	Accepted	Solent Stevedores	Contractor for Port	FALSE	Contractor	Mike Sellers	Yes	07/02/2020	Approved	David Williams
£40		Hospitality	Ian Diaper	Portsmouth International Port	19/11/2019	Attending the Commission Ceremony of the naming of HMS Prince of Wales	Accepted	Navy Command HQ, Media Comms Engagement	Ministry Of Defence	FALSE	Mike Sellers was invited but unable to attend, so the invitation was extended to his deputy Ian Diaper, who actually did not attend due to ill health.	Mike Sellers	Yes	17/12/2019	Ian did not attend this ceremony	David Williams

Appendix 2: Hospitality over £40

Value	Specified Value	Classification	Receiver	Service	Date Received	Description	Action	Donor Name	Known Donor Interests	Donor Minor?	Reason	Approver	Approved By Approver	Approver Decision Date	Approver Reason	Director
	£200	Hospitality	Ian Diaper	Portsmouth International Port	03/02/2020	One night on Scarlet Lady vessel, Virgin Cruises as a guest of potential future customer.	Accepted	Virgin Cruises	Prospective new business	FALSE	Prospective new business from Virgin Cruises. The reason for the delay is due to PCC laptop access/IT issues and also COVID19.	Mike Sellers	Yes	16/07/2020	new business opportunity	David Williams
	£200	Hospitality	Mike Sellers	Portsmouth International Port	13/12/2019	Celebrity Apex Inaugural Sailing	Rejected	Royal Caribbean Cruise Line		FALSE	Not appropriate to attend.	David Williams				Natasha Edmunds
	£200	Hospitality	Ian Diaper	Portsmouth International Port	15/10/2019	Hospitality on board Columbus at the London Cruise Terminal, Tilbury, evening celebration for	Accepted	Cruise and Maritime Voyages		FALSE	Ian is attending on behalf of Mike Sellers, Port Director, who received the invitation but is unable to attend.	Mike Sellers	Yes	06/01/2020	Ian asked to attend by Mike Sellers	David Williams
	£200	Hospitality	Ian Diaper	Portsmouth International Port	15/10/2019	Hospitality on board Columbus at the London Cruise Terminal, Tilbury, evening celebration for	Accepted	Cruise and Maritime Voyages		FALSE	Ian is attending on behalf of Mike Sellers, Port Director, who received the invitation but is unable to attend.	Mike Sellers	Yes	05/12/2019	mutual customers of CMV and likewise to PIP.	David Williams
	£159	Hospitality	Pam Turton	Regeneration	12/12/2019	Attendance at the Chartered Institute of Highways and Transportation Annual Luncheon.	Accepted	Atkins	PCC framework consultant - engineering and transport planning consultancy.	FALSE	CIHT (of which I am a Fellow), brings together senior representatives from across the Transport Industry. The annual lunch is an opportunity to network, and raise the profile of projects. With plans progressing for major developments in Portsmouth (e.g., Air Quality and Rapid Transit), this seems a timely opportunity to raise awareness and seek support for these programmes. I have discussed this invitation with my line manager and for the reasons set out above, he has authorised my attendance	Tristan Samuels	Yes	15/12/2019	Good opportunity to network with colleagues and decision makers for the benefit of the City.	David Williams
	£140 estimated	Hospitality	Caroline Elder	Regeneration	09/03/2020	Meal for seven members of staff people with drinks at restaurant.	Accepted	REDACTED	Future customer	FALSE	Team meal out. When we asked for the bill the donor who works at the (family) restaurant said that it was complementary. Unable to assess the cost, members of the group made a cash donation.	Tristan Samuels	Yes	09/03/2020	approved	David Williams
	£125.00	Hospitality	James Batney	Culture, Leisure & Regulatory Services	05/11/2019	An evening with Dan Snow (looking back 75 years) Thursday 7th November 2019	Accepted	REDACTED	D-Day Museum Trustee	FALSE	I accepted in the capacity of Manager of the D-Day Story and have since agreed with my line manager	Stephen Baily	Yes	09/12/2019	Working in partnership with the Trust, refusal would offend	David Williams
	£125	Hospitality	James Daly	Culture, Leisure & Regulatory Services	09/12/2019	An evening with Dan Snow	Accepted	Portsmouth D-Day Museum Trust	Charity	FALSE	Partnership working with Portsmouth D-Day Museum Trust. To decline would cause offence.	Stephen Baily	Yes	09/12/2019	Working in partnership with the Trust, refusal would offend	David Williams

Appendix 2: Hospitality over £40

Value	Specified Value	Classification	Receiver	Service	Date Received	Description	Action	Donor Name	Known Donor Interests	Donor Minor?	Reason	Approver	Approved By Approver	Approver Decision Date	Approver Reason	Director
	£125	Hospitality	Matthew Gummerson	Public Health	20/11/2019	Free non-residential place at 2020 LARIA Annual Conference won in raffle at 2019 LARIA conference	Accepted	Local Area Research and Intelligence Association	Membership body run largely by volunteers in the UK public sector.	FALSE	The donor is a voluntary organisation set up to encourage communication between those involved in Research and Intelligence in Local Government and other local public services, and the Annual Conference is a useful opportunity to improve research and intelligence practice. The free place was allocated through a prize draw and will be available to whichever member of the local authority intelligence community it will be most beneficial to the council to attend.	Claire Currie	Yes	04/12/2019	Reason accepted - a useful opportunity and high confidence that there are no hidden motives of concern in offering the free conference place.	David Williams

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Appendix 3: Adult Social Care Gifts over £5 limit

Value	Receiver	Date Received	Specified Value	Description	Classification	Sub Classification	Action	Donor Name	Donor Interests	Donor Minor?	Hide Donor Details?	Donated To	Donated To Other	Reason	Approver	Approved By Approver	Approval Decision Date	Approver Reason	Director
£5 - £25	Margaret Cox	24/02/2020		Tin of biscuits	Gift	Other	Donated	REDACTED	Family member not corporate interest	FALSE	TRUE	Lord Mayor Appeal		Family member requested the gift be kept as she was so pleased with the sensitive manner in which the staff dealt with her family member. She was happy in the circumstances for the biscuits to go the Lord Mayors Appeal	Angela Dryer				David Williams
	Margaret Cox	24/02/2020		Tin of biscuits	Gift	Other	Donated	REDACTED	Family member not corporate interest	FALSE	TRUE	Lord Mayor Appeal		Family member requested the gift be kept as she was so pleased with the sensitive manner in which the staff dealt with her family member. She was happy in the circumstances for the biscuits to go the Lord Mayors Appeal	Angela Dryer				David Williams
	Brigid Forrest	14/01/2020		Cream crackers and 2020 paper calendar	Gift	Cash / Voucher	Accepted	REDACTED		FALSE	TRUE			Potential for client distress if myself and CPN did not accept these small Christmas gifts.	Angela Dryer	Yes	14/01/2020	non acceptance could have led to distress to client	David Williams
	Carrie Piddington	19/12/2019		Bag of various cosmetics	Gift	Other	Rejected	REDACTED		FALSE	TRUE			Against PCC policy to accept gift.	Angela Dryer				David Williams
	Angela Dryer	05/12/2019		Copy of Beyond Command & Control book	Gift	Other	Accepted	Vanguard	Have provided Systems thinking training to PCC and service in past	FALSE	TRUE			Sent by organisation as have worked with us in the past	David Williams	Yes	05/12/2019	Work related	Natasha Edmunds
	Jessica Tutt	01/10/2019		Knitted toy and blanket	Gift	Cash / Voucher	Accepted	REDACTED		FALSE	TRUE			Client had knitted toy and blanket for workers new child. Worker tried to decline, client insisted on acceptance.	Angela Dryer	Yes	15/10/2019	Client insisted despite attempt to decline	David Williams
Over £25 (specify)	Andy Biddle	08/04/2020	over £25	The utterly cracking Easter hamper	Gift	Other	Accepted	Hotel Chocolate	None that have been declared	FALSE	TRUE			Donated perishable goods, specific to time of year therefore cannot go to Lord Mayor's charity. Donated to residents of care home.	Angela Dryer	Yes	12/04/2020	Donated to residents in care home	David Williams
	Victoria Davies	06/12/2019	£25	Large Christmas hamper received that includes bottles of wine, sweets, biscuits, tea, coffee and hot chocolate	Gift	Other	Donated	Mark Bates Ltd	Mark Bates Ltd are an insurer recommended to Direct Payment clients for insurance such as employers liability.	FALSE	TRUE	Other	Food Bank - Food and drink placed in trolley in The View for it to be donated to food banks across the city.	Hamper donated.	Chris Ward				David Williams

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Appendix 4: Cash Vouchers Report

Service Text	Date Received	Value Desc	Specified Value	Receiver	Description	Sub Classification	Action	Donor Name	Donor Interests	Donor Minor?	Hide Donor Details?	Donated To	Reason	Approver	Approved By Approver	Approver Decision Date	Approver Reason	Director
Culture, Leisure & Regulatory Services	23/10/2019	Over £25 (specify)	£50.00	Sharon Watling	£50 Customer Service Voucher as we loaned a Guillotine to them for a day for their tourism leaflets.	Cash / Voucher	Accepted	Wightlink		FALSE	TRUE		Tried to reject it but unable to. Will give this to the Lord Mayors Appeal	Stephen Baily	Yes	23/10/2019	donated to Lord Mayors appeal	David Williams
Housing, Neighbourhood and Building Services	10/06/2020	£5 - £25		Emma Hobbs	£5 note	Cash / Voucher	Rejected	REDACTED	Resident of Nicholson Gardens	FALSE	TRUE		Cash cannot be accepted	James Hill				David Williams
Housing, Neighbourhood and Building Services	02/06/2020	£5 - £25		Lisa Jackson	£10 cash	Cash / Voucher	Rejected	REDACTED	Resident of St Clares Court	FALSE	TRUE		Cash cannot be accepted	James Hill				David Williams
Housing, Neighbourhood and Building Services	29/05/2020	£5 - £25		Danny Ardrey	£15 cheque	Cash / Voucher	Rejected	REDACTED	Residents of John Marshall Court	FALSE	TRUE		Cash /cheque cannot be accepted	James Hill				David Williams
Housing, Neighbourhood and Building Services	22/04/2020	£5 - £25		Tina Hilton	REDACTED wanted Tina to take the change from the shopping that she did for her due to Covid 19 and not being able to get out	Cash / Voucher	Rejected	REDACTED	REDACTED receives the Cat 1 Sheltered Housing Service	FALSE	TRUE		Tina is aware that she can not accept any cash from residents. She explained this to the resident and had a chat with her as this was the 3rd time this resident had asked her to keep the cash. Tina explained she was helping her as part of her job and she gets paid for what she does and also she was happy to help her as she knew the resident couldn't get out due to Covid 19..	James Hill				David Williams

Appendix 4: Cash Vouchers Report

Service Text	Date Received	Value Desc	Specified Value	Receiver	Description	Sub Classification	Action	Donor Name	Donor Interests	Donor Minor?	Hide Donor Details?	Donated To	Reason	Approver	Approved By Approver	Approver Decision Date	Approver Reason	Director
Housing, Neighbourhood and Building Services	16/04/2020	Under £5		Tina Hilton	Tina was supporting REDACTED with her shopping as she was shielding as per Covid 19 and wanted Tina to keep the change from the shopping.	Cash / Voucher	Rejected	REDACTED	REDACTED receives the CAT1 Sheltered Housing Service	FALSE	TRUE		Tina is aware that she can not accept any cash from residents and explained this and handed the moment [money] back	James Hill				David Williams
Housing, Neighbourhood and Building Services	09/04/2020	£5 - £25		Tina Hilton	Due to the Covid situation we are shopping for this resident who shielding and she wanted Tina to have the change from the shopping.	Cash / Voucher	Rejected	REDACTED	Resident receives Cat 1 Sheltered Housing Service	FALSE	TRUE		Tina is aware that under no circumstances can she accept cash from a resident so she handed the change back and explained the reason why.	James Hill				David Williams
Housing, Neighbourhood and Building Services	09/04/2020	£5 - £25		Tina Hilton	Tina was shopping for REDACTED due to the Covid 19 situation and resident very nervous about going out and had no one else to help her. She wanted Tina to take the change from the shopping	Cash / Voucher	Rejected	REDACTED	REDACTED receives the Cat 1 Sheltered Housing Service	FALSE	TRUE		Tina is aware she can not accept any money from residents. She handed the change back to REDACTED and explained this and that she was helping her as part of her role as a Cat 1 mobile manager.	James Hill				David Williams
Housing, Neighbourhood and Building Services	08/04/2020	£5 - £25		Emma Hobbs	Unspecified amount of money offered to buy PPE for staff	Cash / Voucher	Rejected	REDACTED	Resident of Nicholson Gardens	FALSE	TRUE		Cash cannot be accepted	James Hill				David Williams
Housing, Neighbourhood and Building Services	04/04/2020	Under £5		Emma Hobbs	£2 scratch card	Cash / Voucher	Rejected	REDACTED	Resident of Nicholson Gardens	FALSE	TRUE		Scratch card cannot be accepted	James Hill				David Williams

Appendix 4: Cash Vouchers Report

Service Text	Date Received	Value Desc	Specified Value	Receiver	Description	Sub Classification	Action	Donor Name	Donor Interests	Donor Minor?	Hide Donor Details?	Donated To	Reason	Approver	Approved By Approver	Approver Decision Date	Approver Reason	Director
Housing, Neighbourhood and Building Services	20/02/2020	£5 - £25		Matthew Underwood	£5 cash given to cleaner Alan Judd by resident for a good job done in their block	Cash / Voucher	Donated	REDACTED		FALSE	TRUE		Cleaner is aware he is unable to accept cash, he made the resident aware of this but they insisted he took it. Alan did not wish to offend the resident.	James Hill				David Williams
Housing, Neighbourhood and Building Services	31/01/2020	Under £5		Catherine Pearce	£1.50 change after paying for laundry tokens	Cash / Voucher	Rejected	REDACTED	Resident of Tweed Court	FALSE	TRUE		Cash cannot be accepted	James Hill				David Williams
Housing, Neighbourhood and Building Services	22/01/2020	£5 - £25		Matthew Underwood	Given to Cleaner Alan Judd as a belated Christmas gift for the good work he does in the residents block. Alan refused but the resident insisted. Alan brought the £5 to me as he is fully aware he can not accept a cash gift.	Cash / Voucher	Donated	REDACTED		FALSE	TRUE	Lord Mayor Appeal	Unable to accept a cash gift.	James Hill				David Williams
Housing, Neighbourhood and Building Services	07/01/2020	£5 - £25		Daniel Jackson	REDACTED wanted to give Dan £20 as a gift for Christmas to thank him for his support and help as a scheme manager.	Cash / Voucher	Rejected	REDACTED	REDACTED is a Cat 1 Sheltered Housing resident	FALSE	TRUE		REDACTED receives the CAT1 Sheltered Housing Service and gave Dan £20.00 cash as a Christmas gift to thank him for his support and help. Dan thanked the resident but explained that he did not expect any gifts and that he could not accept any form of cash at all and handed it back to the resident which she accepted.	James Hill				David Williams

Service Text	Date Received	Value Desc	Specified Value	Receiver	Description	Sub Classification	Action	Donor Name	Donor Interests	Donor Minor?	Hide Donor Details?	Donated To	Reason	Approver	Approved By Approver	Approver Decision Date	Approver Reason	Director
Housing, Neighbourhood and Building Services	18/12/2019	£5 - £25		David Creasey	£20 cash gift	Cash / Voucher	Donated	REDACTED		FALSE	TRUE	Lord Mayor Appeal	Cash given and resident was offended at thought of being rejected, Resident insisted it was taken (resident in 80s) Told would be donated to Lord Mayors appeal	James Hill				David Williams
Housing, Neighbourhood and Building Services	16/12/2019	£5 - £25		Jonathon Mackay	£10 cash offered	Cash / Voucher	Rejected	REDACTED	Resident of Ian Gibson Court where Jonathon is Scheme Manager	FALSE	TRUE		Rejected as cash cannot be accepted	James Hill				David Williams
Housing, Neighbourhood and Building Services	16/12/2019	£5 - £25		Alison Croucher	£10 cash	Cash / Voucher	Rejected	REDACTED	Resident of Ian Gibson Court	FALSE	TRUE		Cash cannot be accepted	James Hill				David Williams
Housing, Neighbourhood and Building Services	17/11/2019	£5 - £25		Louise Short	£20 cash	Cash / Voucher	Rejected	REDACTED	Resident of Ian Gibson Court where Louise works as Care Service Manager	FALSE	TRUE		Cash cannot be accepted	James Hill				David Williams

Appendix 5: Donated Items Report

Donated To Desc	Value Desc	Service Text	Date Received	Donated To Other	Specified Value	Receiver	Description	Classification	Sub Classification	Donor Name	Known Donor Interests	Donor Minor?	Action	Reason	Approver
Other	£5 - £25	Housing, Neighbourhood and Building Services	20/02/2020			Matthew Underwood	£5 cash given to cleaner Alan Judd by resident for a good job done in their block	Gift	Cash / Voucher	REDACTED		FALSE	Donated	Cleaner is aware he is unable to accept cash, he made the resident aware of this but they insisted he took it. Alan did not wish to offend the resident. Donated to charitable fund	James Hill
Lord Mayor Appeal	£5 - £25	Adult Services	24/02/2020			Margaret Cox	Tin of biscuits	Gift	Other	REDACTED	Family member not corporate interest	FALSE	Donated	Family member requested the gift be kept as she was so pleased with the sensitive manner in which the staff dealt with her family member. She was happy in the circumstances for the biscuits to go the Lord Mayors Appeal	Angela Dryer
			24/02/2020			Margaret Cox	Tin of biscuits	Gift	Other	REDACTED	Family member not corporate interest	FALSE	Donated	Family member requested the gift be kept as she was so pleased with the sensitive manner in which the staff dealt with her family member. She was happy in the circumstances for the biscuits to go the Lord Mayors Appeal	Angela Dryer
		Housing, Neighbourhood and Building Services	22/01/2020			Matthew Underwood	Given to Cleaner Alan Judd as a belated Christmas gift for the good work he does in the residents block. Alan refused but the resident insisted. Alan brought the £5 to me as he is fully aware he can not accept a cash gift.	Gift	Cash / Voucher	REDACTED		FALSE	Donated	Unable to accept a cash gift.	James Hill
			17/01/2020			Kirsty Mcniff	Bottle of Gin as a thank you for everything that Kirsty has done to help him	Gift	Other	REDACTED	REDACTED receives the Cat 1 Sheltered Housing Service and Kirsty is the scheme manager	FALSE	Donated	Kirsty explained she could not accept this gift due to the gift policy. John would not accept the gin back so we will be donating it to The Lord Mayors Appeal which I will help Kirsty do next week-Week of 20th January 2020.Valerie Searley	James Hill
			19/12/2019			Jolene Burns	x4 wine and tub of Celebrations	Gift	Other	REDACTED	Does work for Council	FALSE	Donated	Individual items were sent with intention of being spread between staff. Not much value in each item.	James Hill
			18/12/2019			David Creasey	£20 cash gift	Gift	Cash / Voucher	REDACTED		FALSE	Donated	Cash given and resident was offended at thought of being rejected, Resident insisted it was taken (resident in 80s) Told would be donated to Lord Mayors appeal	James Hill
		Portsmouth International Port			16/12/2019			Ian Alexander	Two bottles of wine	Gift	Cash / Voucher	Ravestein Ltd	Contractor	FALSE	Donated
			16/12/2019			James Evans	Two bottles of wine	Gift	Cash / Voucher	Ravestein Ltd	Contractor	FALSE	Donated	Inappropriate to accept	Mike Sellers
			16/12/2019			John Cotton	Two bottles of wine	Gift	Cash / Voucher	Ravestein Ltd	Contractors	FALSE	Donated	Inappropriate to accept	Mike Sellers

Appendix 5: Donated Items Report

Donated To Desc	Value Desc	Service Text	Date Received	Donated To Other	Specified Value	Receiver	Description	Classification	Sub Classification	Donor Name	Known Donor Interests	Donor Minor?	Action	Reason	Approver
	Over £25 (specify)	Regeneration	16/12/2019			Steve Watkyns	Two bottles of wine	Gift	Cash / Voucher	Ravestein	Contractor	FALSE	Donated	Inappropriate to keep	Mike Sellers
			31/10/2019		UNKNOWN	Denise Bastow	INEOS BACKPACK AND TWO INEOS BASEBALL CAPS	Gift	Other	INEOS TEAM UK LTD		FALSE	Donated	UNABLE TO ACCEPT GIFTS PERSONALLY BUT ADVISED INEOS THAT I COULD DONATE THEM TO THE LORD MAYOR'S APPEAL WHICH THEY AGREED SHOULD HAPPEN, COPY OF EMAIL RECEIPT FROM LORD MAYOR'S OFFICE ATTACHED	Pam Turton
	Under £20	Portsmouth International Port	16/12/2019			Mike Sellers	Bottle of red wine and bag of maltesers	Sponsorship		Village Hotel Club Portsmouth	Used facilities for Port Away Day	FALSE	Donated	Red wine will be donated to Lord Mayor's Appeal, the maltesers will be shared amongst the team.	David Williams
Other	£5 - £25	Corporate Services	23/12/2019	Added to PCC Food bank		Alastair Smith	Chocolates	Gift	Other	Silverstring	Provides backup software/solution components to PCC IT	FALSE	Donated	To ensure no direct benefit to PCC staff	Natasha Edmunds
			12/12/2019	Cares Christmas Box Appeal		Tina West	Box of Thorntons Christmas Selection Chocolates	Gift	Other	St Thomas Training Ltd		FALSE	Donated	Box of Thornton Chocolates received by post from St Thomas Training Ltd as a thank you for help and support for Training delivered on site. St Thomas Training provide Safeguarding and MCA Training for PCC Staff	Stephen Baily
		Housing, Neighbourhood and Building Services	16/12/2019	Gift donated to Ian Gibson Court residents' Christmas raffle		Jonathon Mackay	Tower Treats - assortment of cakes, biscuits & chocolates	Gift	Other	Goldchem chemists	Chemist who deliver medication to residents in Ian Gibson Court	FALSE	Donated	Gift valued at £25 so could not be accepted	James Hill
	Over £25 (specify)	Adult Services	06/12/2019	Food Bank - Food and drink placed in trolley in The View for it to be donated to food banks across the city.	£25	Victoria Davies	Large Christmas hamper received that includes bottles of wine, sweets, biscuits, tea, coffee and hot chocolate	Gift	Other	Mark Bates Ltd	Mark Bates Ltd are an insurer recommended to Direct Payment clients for insurance such as employers liability.	FALSE	Donated	Hamper donated.	Chris Ward
		Housing, Neighbourhood and Building Services	17/12/2019	Landport Community Garden	£29.99	Adam Hardwick	RSPB bird food gift box with feeders	Gift	Other	ECOSA Ltd	Ecological consultancy for PCC project work.	FALSE	Donated	Gift over £25 in value and the LCG would have a better use for it.	James Hill
			11/12/2019	Given to residents in the lounge / dining area on Xmas Day	£27.99	Sandra Perryman	Tower of treats - containing cakes, biscuits, chocolates	Gift	Other	Goldchem chemists	local chemist that delivers medication to the residents of Nicholson Gardens	FALSE	Donated	Value of gift too high to be accepted, so given to residents of Nicholson Gardens	James Hill
	Under £5	Children and Families Services	21/07/2020	To be shared within the team (North Locality)		Lauren Fraser	small box of miniature chocolates - Maltesers truffles	Gift	Other	REDACTED	Currently on my caseload - CP plan REDACTED said he would like me to have the chocolates because I have listened to him.	TRUE	Donated	REDACTED was upset when I said I was unable to accept the chocolates and I agreed to share them within my team.	Alison Jeffery
		Housing, Neighbourhood and Building Services	21/01/2020	WASPI charitable fund		Susan Allan	Handbag size makeup mirror	Gift	Other	REDACTED		FALSE	Donated	to support charitable fund	James Hill

CODE OF CONDUCT - MEMBERS' GIFTS & HOSPITALITY REGISTER

Councillor	Gift(s) and/or Hospitality details			Expiry date (+ 3 years)	Office Date submitted
	Name of Donor(s)	Address of Donor(s)	Nature of Gift/Hospitality		
Lee Mason	City Life Church	City Life Church, 85 Tangier Road, Portsmouth, PO3 6JH	Global Leadership Summit (approx £50)	1st Nov/2nd Nov 2019	14th November 2019
Gerald Vernon-Jackson	Portsmouth Down Syndrome Association	The Sarah Duffen Centre, Belmont St Building, Cottage Grove School Campus, Chivers Close, Portsmouth, PO5 1HG	Annual fundraising dinner on board HMS Warrior (approx £50)	22nd November 2019	28th November 2019
Jo Hooper	New Theatre Royal	Guildhall Walk, Portsmouth, PO1 2DD	2 tickets plus drinks reception for Christmas production of "The Nutcracker" (Total value approx £60)	Friday 20th December 2019	10th January 2020

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Title of meeting:	Governance & Audit & Standards Committee
Date of meeting:	20 th November 2020
Subject:	Internal Audit Performance Status Report to 6 th November 2020.
Report by:	Chief Internal Auditor
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Summary

- 1.1 This is an Internal Audit Performance Status Report for the 2020-21 planned audit activities. Appendix A includes the detail of progress made against the annual plan and documents individual audit findings.

2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2020/21 to 6th November 2020 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

3. Recommendations

- 3.1 That Members note the Audit Performance and results for 2020/21 to 6th November 2020.

4. Background

- 4.1 The Annual Audit Plan for 2020/21 has been drawn up in accordance with the agreed Audit Strategy and was approved by this Committee on 3rd March 2020 following consultation with Directors and relevant parties. The Plan was revised and represented to this committee on 21st July 2020 following a reassessment of risk exposure and COVID 19 requirements. It is now reviewed monthly in order to take account of any further changes in risks levels or corporate priorities.

5. Integrated Impact Assessment

5.1 The contents of this report do not have any relevant equalities and environmental impact and therefore an Integrated Impact assessment is not required.

6. Legal Implications

6.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council’s legal requirements and the Council is fully empowered to make the decisions in this matter.

6.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

7 Finance Comments

7.1 There are no financial implications arising from the recommendations set out in this report.

7.2 The S151 Officer is content that the progress against the Annual Audit Plan and the agreed actions are sufficient to comply with his statutory obligations to ensure that the Authority maintains an adequate and effective system of internal audit of its accounting records and its system of internal control.

.....
 Signed by: Elizabeth Goodwin, Chief Internal Auditor

Appendices:

Appendix A – Internal Audit Progress Report

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

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

Title of document	Location
1 Accounts and Audit Regulations	http://www.legislation.gov.uk/ukxi/2011/817/contents/made
2 Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings – reports published online.
3 Public Sector Internal Audit Standards	http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards

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

.....
Signed by:

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Portsmouth
CITY COUNCIL

Internal Audit Progress Report 20th November 2020

Elizabeth Goodwin, Chief Internal Auditor

1. Introduction

Internal Audit is a statutory function for all local authorities.

The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015 as to:

Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2016].

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

This report includes the status against the 2020/21 internal audit plan.

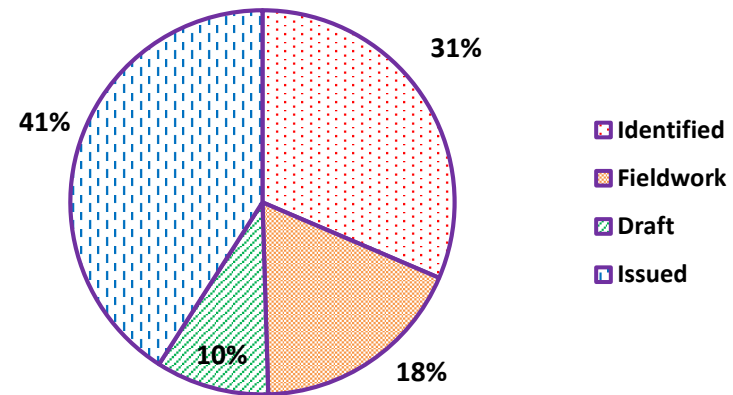
2. Audit Plan Progress as of 6th November 2020

There are 67 Full Audits, 19 Follow ups and 19 2nd Follow up reviews, in the revised plan for 2020/21, totalling 105 reviews.

To date, 72 (69%) have been completed or are in progress as at 6th November 2020. This represents 43 (41%) audits where the report has been finalised, 10 (10%) where the report is in draft and 19 (18%) audits currently in progress.

Status	Audits
Identified	33
Fieldwork	19
Draft Report	10
Final Report	43

Audit Plan Progress as of 6th November 2020



3. Ongoing Internal Audit Involvement

Internal Audit has provided advice, ongoing reviews and involvement work in the following area. (For reference, advice is only recorded when the time taken to provide the advice exceeds one hour):

- Data matching in relation to payroll records and apprentices. Work has been undertaken using data analytics software to identify potential apprentices on the wrong national insurance tax code
- Regulation of Investigatory Powers Act (RIPA) - authorisations (if applicable), policy review and inspections
- Anti-Money Laundering - monitoring, reporting and policy review
- Financial Rules Waivers
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Cabinet Office
- National Anti-Fraud Network (NAFN) bulletins and intelligence follow up
- Counter Fraud Programme - proactive work to reduce the risk exposure to the authority
- Governance & Audit & Standards Committee - reporting and attendance
- Audit Planning and Consultation
- Risk Management & Annual Governance Statement
- Performance Management
- 9 special investigations - (excludes Benefit and Council Tax Support cases)
- 18 items of advice, (where the advice exceeds an hours work)

Over the course of this financial year, Internal Audit has also been involved in supporting the organisation in maintaining critical activities during Covid-19, this has included redeployment of some staff and undertaking ad-hoc control and risk management assessments in order for the organisation to flex its governance framework.

Internal Audit & Counter Fraud has also been performing a number of assurance work in relation to COVID 19. This was due to be presented at this meeting; however, work is still on-going due to the 2nd lock-down and additional central government support packages. A full break-down of activities performed and resources redeployed over the last year will be presented at a later stage; however, before 20/21 year-end.

4. Audit Plan Status/Changes

The following changes have been made to the plan since the revised plan was presented in July 2020.

Audits added to the Audit Plan:

- Covid 19 Income loss compensation claim - Included within the 20/21 audit plan due to independent assurance requirements. There will be several verification points between now and any subsequent payments.

Audits removed from the Audit Plan:

- Adult's residential unit - Follow up required; however, due to Covid-19 onsite visits are highly unlikely and therefore this has been deferred to the 21/22 audit plan.
- Emergency procedures - Follow up required; however, due to Covid-19 onsite visits are highly unlikely and therefore this has been deferred to the 21/22 audit plan.
- Coffee shop - Follow up required; however, due to Covid-19 onsite visits are highly unlikely and therefore this has been deferred to the 21/22 audit plan.
- Energy Management Grant - Grant no longer in payment.
- Covid 19 Bus support restart grant number 31/5020 period 2 - Phase sign off no longer required. End of period only.

5. Areas of Concern

There are no new areas of concern to highlight for this reporting period.

6. Assurance Levels

Internal Audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives for the area under review.

Assurance Level	Description / Examples
Assurance	<i>No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority</i>
Reasonable Assurance	<i>Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority</i>
Limited Assurance	<i>Control weaknesses or risks were identified which pose a more significant risk to the Authority</i>
No Assurance	<i>Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit</i>
NAT	<i>No areas tested</i>

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Audits rated No Assurance are specifically highlighted to the Governance and Audits and Standards Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.

7. Exception Risk Ranking

The following table outline the exceptions raised in audit reports, reported in priority order and are broadly equivalent to those previously used.

Priority Level	Description
Low Risk (Improvement)	<i>Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.</i>
Medium Risk	<i>These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.</i>
High Risk	<i>Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not 'show stopping' but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.</i>
Critical Risk	<i>Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the Council's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.</i>

Any critical exceptions found the will be reported in their entirety to the Governance and Audits and Standards Committee along with Director's comments

8. 2020/21 Audits completed to date (6th November 2020)

Supplier Due Diligence - Director of Adult Social Care

Exceptions Raised

Critical	High	Medium	Low
0	0	3	1

Overall Assurance Level
Reasonable Assurance

Agreed actions are scheduled to be implemented by 2021/22

Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Reasonable Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

Three medium risk exceptions were raised in relation to no evidence of comprehensive checks on providers financial standing for 3/23 providers tested, no formal agreement in place such as a Dynamic Purchasing System and the lack of contract monitoring of the providers tested in the domiciliary service and residential settings. One low risk exception was also raised as a result of this review.

Right to Buy - Director of Housing, Neighbourhood and Building Services

Exceptions Raised

Critical	High	Medium	Low
0	2	2	0

Overall Assurance Level
Limited Assurance

Agreed actions are scheduled to be implemented by November 2020

Assurance Level by Scope Area

Achievement of Strategic Objectives	Limited Assurance
Compliance with Policies, Laws & Regulations	Limited Assurance
Safeguarding of Assets	Reasonable Assurance
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Two high risk exception were raised in relation to 96% of applications within the sample tested did not evidence comprehensive due diligence on Right to Buy applications. In addition to this money laundering checks were insufficient as PCC place heavy reliance on third parties to detect such instances. Two medium risk exceptions were also raised as a result of this review.

Budget Monitoring - Director of Finance and Resources
Exceptions Raised

Critical	High	Medium	Low
0	0	2	2

Overall Assurance Level
Reasonable Assurance

Agreed actions are scheduled to be implemented by January 2021

Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	Reasonable Assurance

Two medium risk exceptions were raised as a result of; poor explanations and insufficient evidence to support those explanations for 20% of the sample variances tested and a lack of evidence to support the authorisations for cash limit adjustments for 30% of the sample reviewed. Two low risk exceptions were also raised.

Training - Portico
Exceptions Raised

Critical	High	Medium	Low
0	1	2	1

Overall Assurance Level
Reasonable Assurance

Agreed actions are scheduled to be implemented by October 2021

Assurance Level by Scope Area

Achievement of Strategic Objectives	Reasonable Assurance
Compliance with Policies, Laws & Regulations	Limited Assurance
Safeguarding of Assets	Reasonable Assurance
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

One high risk exception was raised in relation to mandatory training. Testing highlighted 36/171 staff members had expired or incomplete training. Two medium and one low risk exception was also raised as a result of this review.

Payroll and Expenses - Solent LEP
Exceptions Raised

Critical	High	Medium	Low
0	0	4	0

Overall Assurance Level
Reasonable Assurance
Agreed actions are scheduled to be implemented by November 2020
Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Reasonable Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	NAT

Four medium risk exceptions were raised as result of this review. This is in relation to 1/24 SLEP employees not completing the iexpenses assessment prior to claiming an expense, 2 expense claims highlighted with additional mileage claimed (over the 60 miles limit), narrative recorded for 8/25 mileage claims not containing suitable justification for the purpose of the journey and 4/25 claims not including a valid VAT receipt when required.

Disabled Facilities Grant - Director of Housing, Neighbourhood and Building Services

Grant Verification - Testing was able to evidence sufficient capital expenditure to allow the Chief Internal Auditor to sign the declaration confirming the grant conditions had been complied with.

COVID Income Loss Compensation Claim - Director of Finance and Resources

Claim's Verification - Testing under phase one has confirmed that audit are in support of the assessment and returns made. Additional estimated returns and the final actual returns will also be reviewed against the relevant terms and conditions.

Infection Control Grant Phase One - Director of Finance and Resources

Verification against terms and conditions - Testing under phase one has confirmed that payments to adult social care providers have been made in accordance with grant terms and conditions.

9. Follow-up Action Categorisation

The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

Follow Up Categories	Description
Open	<i>No action has been taken on agreed action.</i>
Pending	<i>Actions cannot be taken at the current time but steps have been taken to prepare.</i>
In Progress	<i>Progress has been made on the agreed action however they have not been completed.</i>
Implemented but not Effective	<i>Agreed action implemented but not effective in mitigating the risk.</i>
Closed: <i>Verified</i>	<i>Agreed action implemented and risk mitigated, verified by follow up testing.</i>
Closed: <i>Not Verified</i>	<i>Client has stated action has been completed but unable to verify via testing.</i>
Closed: <i>Management Accepts Risk</i>	<i>Management has accepted the risk highlighted from the exception.</i>
Closed: <i>No Longer Applicable</i>	<i>Risk exposure no longer applicable.</i>

10. 2020/21 Follow-up Audits to date (6th November 2020)

Deprivation of Liberties - Director of Adult Social Care

Original Exceptions Raised

Critical	High	Medium	Low
1	4	1	0

Latest implementation date scheduled during the original audit was in June 2020

Original Assurance Level

No Assurance

Follow-up Assurance Level

Limited Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
2 (High)	0	2 (High)	0	1 (Critical)	0	1 (Medium)	0

Follow up testing confirmed that the critical risk exception has now been closed and verified. One high risk exception is in progress, this is in relation to 77% of DoLS referrals not being processed within the statutory timescales. The service will continue to prioritising the assessments by greatest need as resource within the team is limited and practices will be amended as part of the process of transferring to LPS (Liberty Protection Safeguards) in 2022. One high risk is currently in progress and this relates to no current contact being in place for different advocacy providers. Two high risk exceptions remain open and relates to insufficient monitoring and oversight of referrals due to no current IT solution being available and completion of data protection training and the retention of records. In addition, one medium risk exception has been closed as management has accepted the risk and this relates to no policy in place for the administration of DoLS. Management has accepted the risk as the government has published a Mental Capacity (Amendment) Bill which passed into law in May 2019. This will require a complete review of current practices in Spring 2022 and the Adult Social Services do not have the resources to create a policy prior to this review. The revised implementation date is Spring 2022.

Volunteering and Social Action - Director of Culture, Leisure and Regulatory Services
Original Exceptions Raised

Critical	High	Medium	Low
0	3	1	0

Latest implementation date scheduled during the original audit was in October 2019.

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Reasonable Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (High) 1 (Medium)	0	1 (High) 1 (Medium)	0	0	0

Follow up testing confirmed that one high and medium risk exception is now closed and verified. The high and medium risk exceptions which remain in progress are as a result of a delay in the implementation of a new online process, which will capture all information in relation to the recruitment and monitoring of volunteers, and was due to 'go live' in February 2020. The original agreed actions were revised with new solutions proposed that would better mitigate the risk exposure, these were not agreed until the beginning of 2020 and was therefore impacted by Covid-19. The revised implementation date is December 2020.

Associations (Community Centres) - Director of Culture, Leisure and Regulatory Services
Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Latest implementation date scheduled during the original audit was in October 2019

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Reasonable Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	2 (High) 1 (Medium)	0	0	0	0	0

Follow up testing has confirmed that two high and one medium risk exception remain in progress. This is in relation to outstanding actions from the most recent Service Level Agreement where monitoring was due to take place as part of normal practice. Due to no lettings during the Covid-19 period, SLA

monitoring meetings has not taken place. The revised implementation dates are dependent on the re-opening of the Community Associations which have been impacted by the Covid-19 pandemic.

CCTV - Portico
Original Exceptions Raised

Critical	High	Medium	Low
0	0	1	0

Latest implementation date scheduled during the original audit was in March 2020

Original Assurance Level

Reasonable Assurance

Follow-up Assurance Level

Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (Medium)	0	0	0	0	0

Follow up testing confirmed that one medium risk exception is in progress. This relates to the CCTV camera operations at Portico. Follow up testing confirmed that the management of CCTV is now supported by policy and procedures. The revised implementation date is September 2020.

Accounts Payable - Portico
Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Latest implementation date scheduled during the original audit was in June 2020

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Reasonable Assurance

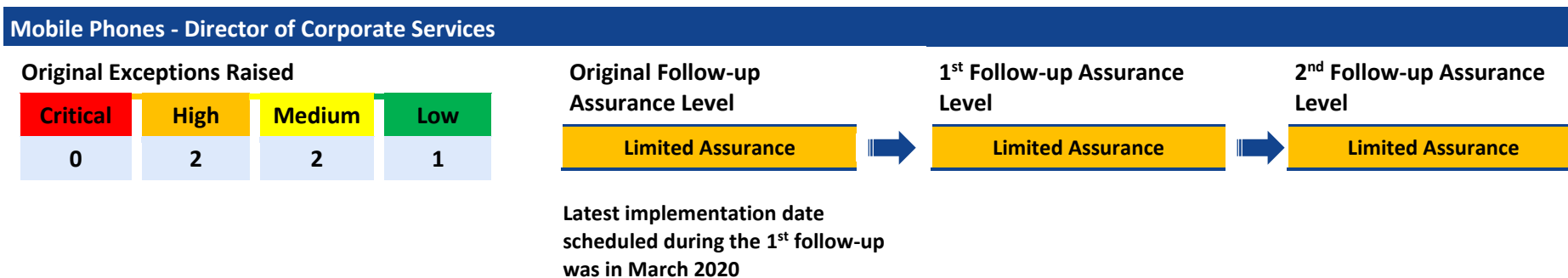
Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (High)	0	1 (High) 1 (Medium)	0	0	0

Follow up testing confirmed that one high and one medium risk exception has been closed and verified. One high risk exception remains in progress. This is in relation to potential fraud risk as user access levels to the main finance system cannot be evaluated to ensure that access is adequately restricted. This is in progress as the system upgrade has not been progressed to completion. The revised implementation date is January 2021.

11. 2020/21 2nd Follow-up Audits to date (6th November 2020)

As raised during the July 2020 Governance & Audits & Standards meeting. Internal Audit has scheduled in 2nd follow-up reviews for all areas where a 1st review highlighted risk exposure still unmitigated. The audits below detail the position as at a 2nd review. It should be noted that whilst some have moved Covid-19 has had an impact on agreed implementation date.



2nd Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High) 1 (Medium) 1 (Low)	0	1 (High) 1 (Medium)	0	0	0	0	0

The initial follow up review confirmed that the one high risk and two medium risk exception remained open while the one low risk exception was in progress. A new high risk was also raised in relation to non-usage. The 2nd follow up confirmed that the one high, one medium and one low remain open due to the current service desk system not being effective and suitable to conduct service desk requirements. A capital bid has been submitted for a replacement but no system has yet to be procured. The revised implementation date is November 2020.

Outdoor Centre - Director of Culture, Leisure and Regulatory Services
Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

Original Follow-up Assurance Level

Limited Assurance

1st Follow-up Assurance Level

Limited Assurance

2nd Follow-up Assurance Level

Reasonable Assurance

Latest implementation date scheduled during the 1st follow-up was in July 2019

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (High)	0	0	0	0	0

The initial follow up review confirmed that one high risk exception remains open in relation to contract monitoring. The 2nd follow up confirmed that since the initial review and first follow up there has been a change in management for the centre and further clarification is required from the manager to clarify content and format of all financial complaint data that is required for monthly monitoring. The revised implementation date is September 2020.

Registrars - Director of Culture, Leisure and Regulatory Services
Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

Original Follow-up Assurance Level

Limited Assurance

1st Follow-up Assurance Level

Limited Assurance

2nd Follow-up Assurance Level

Assurance

Latest implementation date scheduled during the 1st follow-up was in June 2019

2nd Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (High)	0	0	0	0	0

The initial follow up review confirmed that one high risk exception is in progress. This is in relation to the completion of mandatory training. This remains in progress as there were two recently-expired courses noted during testing and a minor error in the recording of staff data, it is noted that these reflect a small percentage of the overall state of staff training at the Portsmouth Registrar's Office hence why an assurance opinion has been provided. The revised implementation date is ongoing.

Hire Cars - Director of Regeneration
Original Exceptions Raised

Critical	High	Medium	Low
0	4	0	0

Original Follow-up Assurance Level

No Assurance

1st Follow-up Assurance Level

Limited Assurance

2nd Follow-up Assurance Level

Limited Assurance

Latest implementation date scheduled during the 1st follow-up was in January 2020

2nd Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	2 (High)	1 (High)	1 (High)	0	0	0

The initial follow up review confirmed that one high risk remained open and three are in progress. The 2nd follow up review has evidenced one high risk exception as closed and verified, two high risk exceptions in progress and one high risk exception as implemented but not effective. The first high risk in progress relates to the completion of online driving assessments which was halted due to other priorities within the Travel team. The 2nd high risk in progress relates to pre-journey checks not being conducted by drivers or the forms subsequently not being checked on their submission. The high risk which was implemented but not effective is in relation to drivers completing the accident and incidents form 24 hours after an accident or incident. Although the agreed action was completed, 1/2 accidents was not reported to PCC insurance within the relevant timeframe. New actions have been agreed and the new revised implementation date is March 2021.

12. Audits in Draft to date (6th November 2020)

Audit	Directorate	Draft	Projected Issue Date	Revised	Comments
Domiciliary Care	Adult Social Care	30/10/2020	December 2020		
No Recourse to Public Funds	Children, Families and Education	28/10/2020	December 2020		
Care Leavers	Children, Families and Education	03/11/2020	December 2020		
Mayfield School	Children, Families and Education	03/11/2020	December 2020		
Information Governance (Data Security)	Corporate & IT	04/11/2020	December 2020		
City Twinning	Culture, Leisure & Regulatory Services	05/11/2020	December 2020		
Modern Records	Culture, Leisure & Regulatory Services	21/10/2020	December 2020		
International Visits	Executive	05/11/2020	December 2020		
ABP contract for Pilots	Port	04/09/2020	December 2020		Delay encountered due to contractor providing information.
Residential Parking	Regeneration	04/11/2020	December 2020		

13. Audits in Progress to Date (6th November 2020)

Audit	Directorate	Delayed	Projected Issued Date	Revised Issued Date	Comments
Direct Payments	Adult Social Care	N/A	January 2020		
Troubled Families Grant	Children, Families and Education	N/A	March 2021		
Youth Offending Team	Children, Families and Education	N/A	January 2020		
Back up and recovery Disaster recovery/Business Continuity	Corporate & IT	N/A	January 2020		
Supporting vulnerable people through Homecheck/Telecare	Housing, Neighbourhood and Building Services	N/A	January 2020		
Planned Maintenance	Housing, Neighbourhood and Building Services	N/A	January 2020		
Homelessness	Housing, Neighbourhood and Building Services	N/A	January 2020		
Claims Housing (Insurance)	Housing, Neighbourhood and Building Services	N/A	January 2020		
Budget Monitoring	Portico	N/A	January 2020		
Accounts Receivable	Portico	N/A	January 2020		
Workforce Planning and Policy	Portico	N/A	January 2020		
Income Dues Brittany	Port	N/A	January 2020		

Income Dues Portico	Port	N/A	January 2020		
Alcohol Treatment Capital	Public Health	N/A	March 2021		
Ravlin	Regeneration	N/A	January 2020		
Insurance	SLEP	N/A	January 2020		
COVID Bus Services Revenue Grant No 31/5023	s151	N/A	March 2021		
COVID Bus Support Restart Grant No 31/5020 Period 1	Finance	N/A	March 2021		
Additional Dedicated H2S & College Transport No 31/5137	Finance	N/A	March 2021		

14. Exceptions

Of the 2020/21 full audits completed, 83 exceptions have been raised.

Risk	Total
Critical Risk	0
High Risk	27
Medium Risk	49
Low Risk - Improvement	9

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Title of meeting:	Governance & Audit & Standards Committee
Date of meeting:	20 November 2020
Subject:	Consideration of the political balance rules in relation to the constitution of Sub-Committees considering complaints against Members.
Report by:	City Solicitor
Wards affected:	N/A
Key decision:	No
Full Council decision:	No

1 Purpose of Report

The Committee is asked to consider whether it wishes to disapply the political balance rules in respect of its Sub-Committees which consider complaints against Members and to agree that the same rule shall apply to the Initial Filtering Panel.

2 Recommendation

It is recommended that the political balance rules are disapplied in respect of Governance and Audit and Standards Sub-Committees which are considering complaints against Members and also the same arrangement should apply in respect of Initial Filtering Panel membership.

3 Background

- 3.1 The Committee agreed on 25 September 2020 to "disapply" the political balance rules in respect of Sub-Committees of Governance and Audit and Standards Sub-Committees when dealing with complaints. This meant the Sub-Committees' membership would in future not be made up of Members in the same proportion as the political groups are represented on the Council. Instead it was agreed that the Sub-Committees would be "cross party as far as reasonably practicable". This was considered important to ensure the greatest transparency in the decision making of these Sub-Committees where complaints against members were considered. It was also agreed that the same rule would apply to the make-up of the Initial Filtering Panel which is not a formal Sub-Committee of Governance and Audit and Standards.
- 3.2 Section 17 (2) Local Government and Housing Act 1989¹ provides that any decision not to apply the political balance rules shall come to an end if there is any change in the make-up of a committee where they have been disapplied.

¹ <http://www.legislation.gov.uk/ukpga/1989/42/section/17>

3.3 The decision is one which only this Committee can make but it must be made without any of the Members present voting against it.

4 Reasons for recommendations

As there has been a change since 25 September 2020 in the political make-up of the Council, Members are asked to reconsider this decision, as the decision to disapply the political balance rules, made on 25 September 2020 is only effective for one year or until there is any change in the make-up of a committee where they have been disapplied. If Members decide to disapply the political balance rules then this shall occur only until May 2021 when the decision would again have to be reconsidered.

5 Integrated Impact Assessment

An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

6 Legal implications

The City Solicitor's comments are included in this report.

7 Director of Finance's comments

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

.....
Signed by: City Solicitor

Appendices: None

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

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

Title of document	Location
None	N/A



Title of meeting:	Governance & Audit & Standards
Date of meeting:	20 th November 2020
Subject:	Data Security Breach Report
Report by:	Senior Information Risk Owner (Chief Internal Auditor)
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Purpose of report

To inform the Committee of any Data Security Breaches and actions agreed/taken since the last reporting period along with an analysis over the year for the period November 2019 to October 2020.

2. Recommendations

It is recommended that Members of the Governance & Audit & Standards Committee note the breaches (by reference to Appendix A) that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).

3. Background

The Corporate Information Governance Panel, formed of representatives from across the Authority, including the Senior Information Risk Owner (SIRO) is chaired by Helen Magri in her role of Data Protection Officer. This panel meets every other month and its responsibilities include;

- Establishing policy and procedures for Information Governance;
- Maintaining a log of data breaches and determining and monitoring onward action.

In addition to this the SIRO updates the Committee on any ongoing breaches and notifies members of any new incidents.

The appendix details each individual breach. 85% of the incidents were as a result of human error, rather than any criminal act or system failure. 48% of all incidents were as a result of emails being sent to incorrect recipients. New Data Loss Prevention applications which are currently being worked on as part of the migration to Microsoft Office 365 will help to minimise this risk in the future.

4. Reasons for Recommendations

To ensure the Governance & Audit & Standards Committee has oversight of Data Security Breaches and any related trends. To further enable additional actions to be recommended to address reoccurring or persistent issues.

5. Integrated impact assessment

This report does not recommend any changes to services or policies and therefore an integrated impact assessment has not been required.

6. Legal implications

The Council is required to ensure it has robust procedures in place to comply with its obligations under the General Data Protection Regulation (GDPR). Bringing this report to the Committee's attention will assist in meeting those requirements.

7. Director of Finance's comments

The Information Commissioner's Office can issue fines of up to €20 million or 4% of the authority's annual turnover for serious breaches of the GDPR. Breach of the Privacy and Electronic Communications Regulations also incurs a financial penalty.

The size of any monetary penalty is determined by the Commissioner, taking into account the seriousness of the breach and other factors (such as the size, financial and other resources of the data controller). Any serious breaches put the City Council at risk of the unbudgeted cost of a financial penalty, which would have to be met from the service responsible for the breach.

.....
Signed by: Elizabeth Goodwin, Senior Risk Information Owner (Chief Internal Auditor)

Appendices: 1 - Data Security Breach Report

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

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

Title of document	Location
General Data Protection Regulations 2018	https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/

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

.....
Signed by:

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Portsmouth
CITY COUNCIL

Data Security Breaches Report - Appendix A

Executive Summary

This report has been prepared to give the Committee an overview of data incidents for the last 12 months (1st November 2019 to 31st October 2020) along with information on previously unreported incidents for the period 4th March 2020 to 6th November 2020.

Clear guidance is provided to staff, via training and Policy Hub, regarding what constitutes a potential data breach and the steps they should take when a potential data breach is identified.

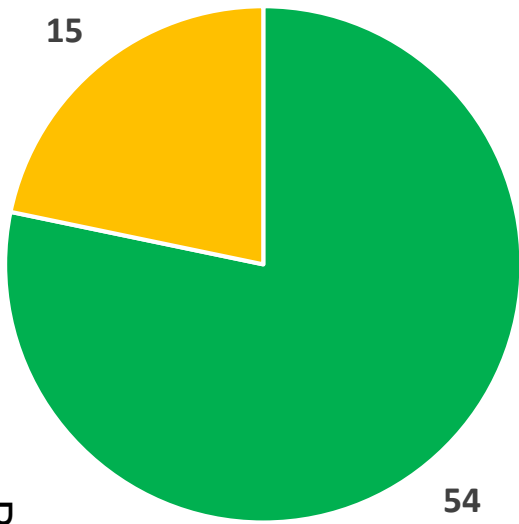
The Council's response to potential data breaches is managed by a central team, following the stages summarised below:

- Notification to central team.
- Initial assessment by central team.
- Escalation to the Senior Information Risk Owner - SIRO (Chief Internal Auditor) if necessary; this may lead to the Information Commissioner (ICO) being notified, dependent on the severity of the incident.
- Remedial action, for example corrective action, training, revised processes and potential disciplinary action.

Overall there have been 69 data breaches over the last 12 months, 54 being notified to the central team within 72 hours, 15 outside of the 72 hour window and 4 requiring notification to the ICO.

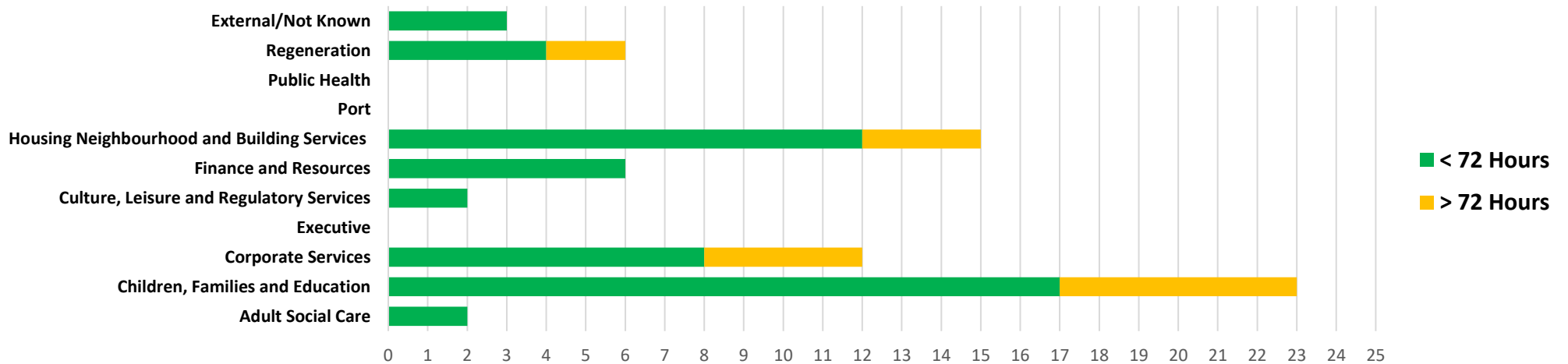
A summary of the data breach incidents are detailed at the end of this report, covering the period from 4th March 2020 to 6th November 2020. This is to highlight previously unreported breaches since the last reporting period.

Response Time

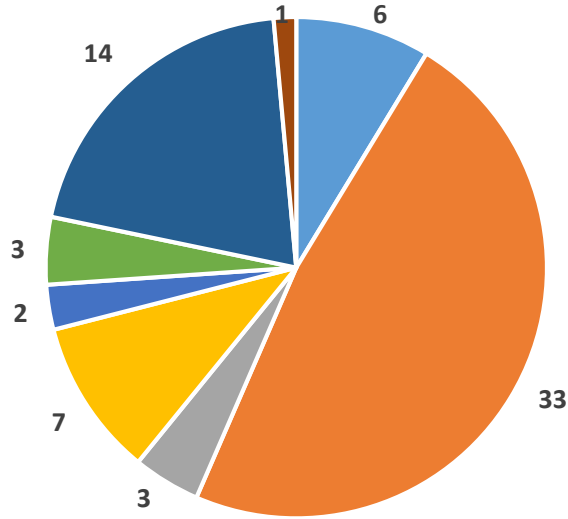


	< 72 hours	> 72 hours	TOTAL
Adult Social Care	2	0	2
Children, Families and Education	17	6	23
Corporate Services	8	4	12
Executive	0	0	0
Culture, Leisure and Regulatory Services	2	0	2
Finance and Resources	6	0	6
Housing Neighbourhood and Building Services	12	3	15
Port	0	0	0
Public Health	0	0	0
Regeneration	4	2	6
External/Not Known	3	0	3
TOTAL	54	15	69

Response time is the time taken for the central team to be notified by the service within which the breach has taken place. ICO guidance is that this should take place within a maximum 72-hour timeframe.

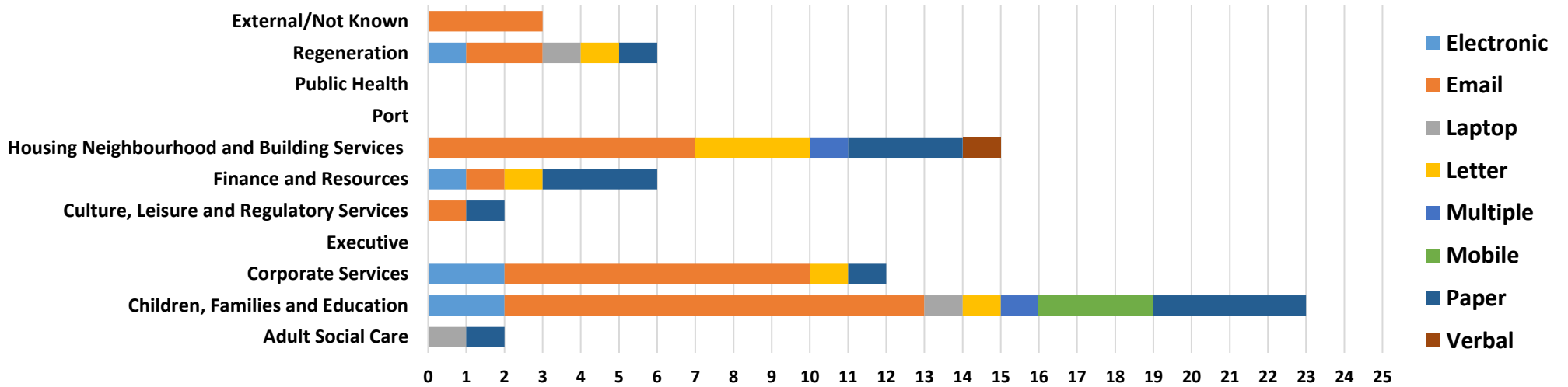


Medium

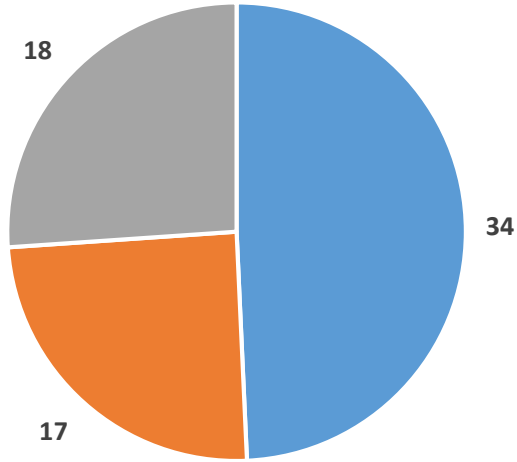


	Electronic	Email	Laptop	Letter	Multiple	Mobile	Paper	Verbal	TOTAL
Adult Social Care	0	0	1	0	0	0	1	0	2
Children, Families and Education	2	11	1	1	1	3	4	0	23
Corporate Services	2	8	0	1	0	0	1	0	12
Executive	0	0	0	0	0	0	0	0	0
Culture, Leisure and Regulatory Services	0	1	0	0	0	0	1	0	2
Finance and Resources	1	1	0	1	0	0	3	0	6
Housing Neighbourhood and Building Services	0	7	0	3	1	0	3	1	15
Port	0	0	0	0	0	0	0	0	0
Public Health	0	0	0	0	0	0	0	0	0
Regeneration	1	2	1	1	0	0	1	0	6
External/Not Known	0	3	0	0	0	0	0	0	3
TOTAL	6	33	3	7	2	3	14	1	69

These refer to the format in which the data breach occurred. Often data breaches can occur across multiple mediums. Where this is the case data breaches are recorded against 'multiple' on this page, with more detail provided on the summary, towards the back of this report.



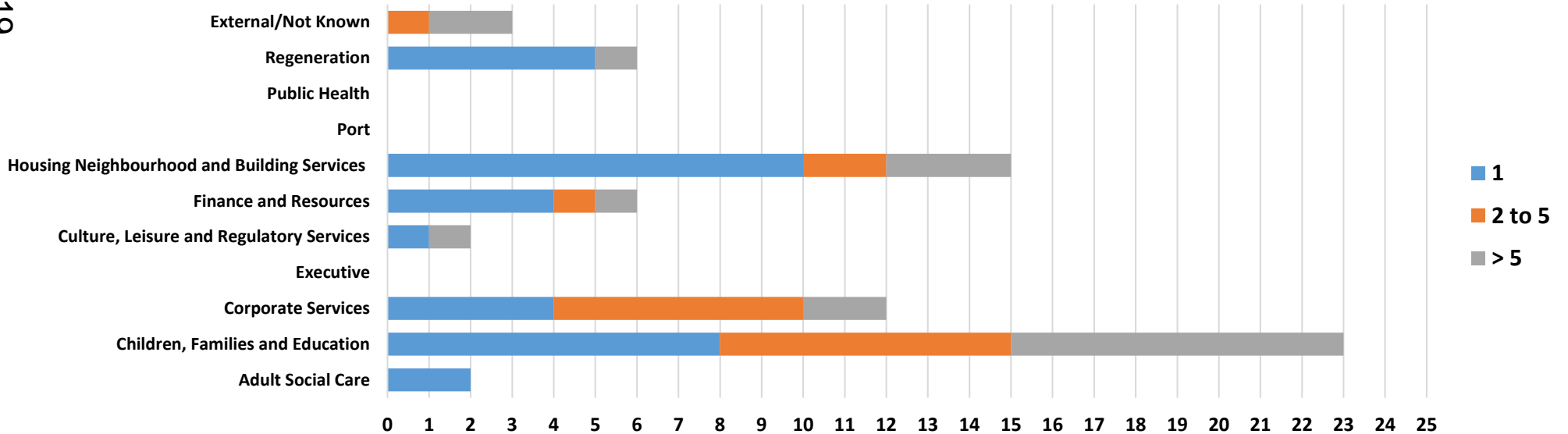
Number Impacted



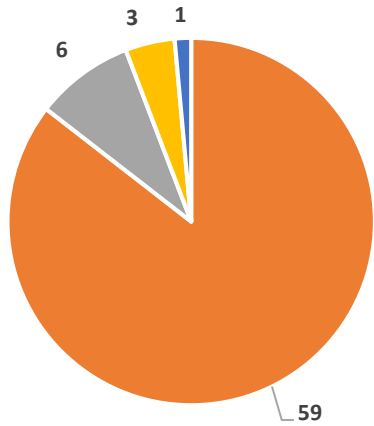
	1	2 to 5	> 5	TOTAL
Adult Social Care	2	0	0	2
Children, Families and Education	8	7	8	23
Corporate Services	4	6	2	12
Executive	0	0	0	0
Culture, Leisure and Regulatory Services	1	0	1	2
Finance and Resources	4	1	1	6
Housing Neighbourhood and Building Services	10	2	3	15
Port	0	0	0	0
Public Health	0	0	0	0
Regeneration	5	0	1	6
External/Not Known	0	1	2	3
TOTAL	34	17	18	69

Totals refer to the number of individuals either confirmed or likely to have been impacted.

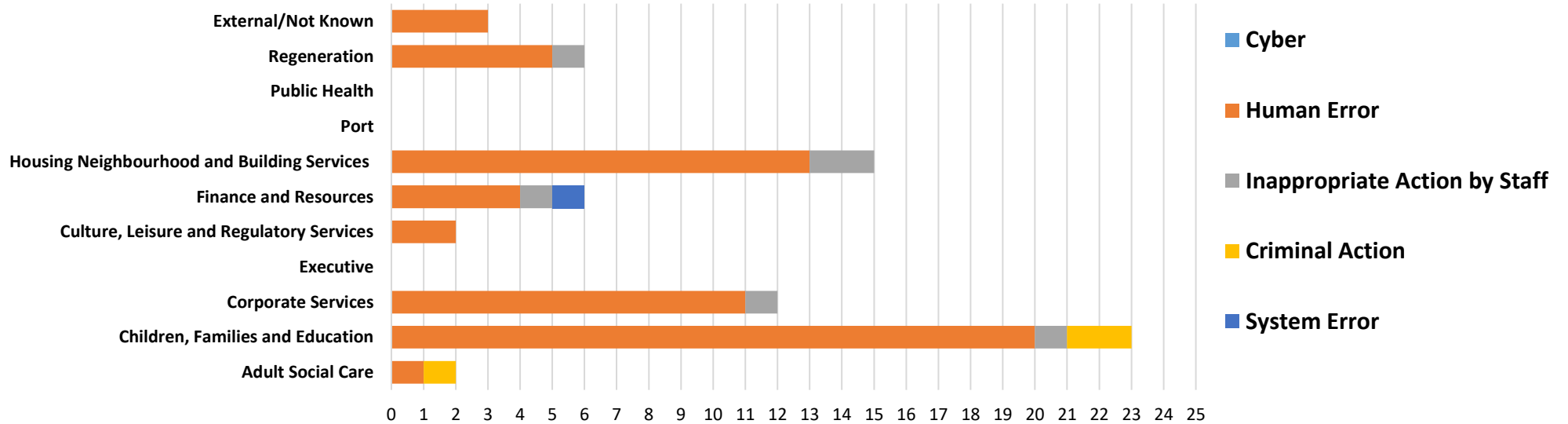
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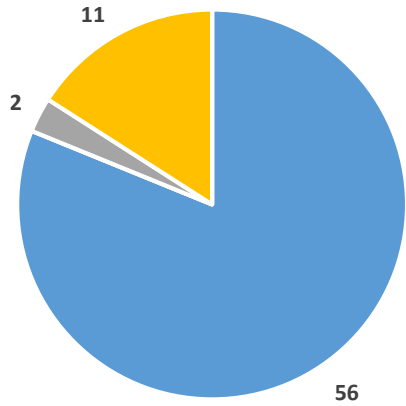
Root Cause



	Cyber	Human Error	Inappropriate Action by Staff	Criminal Action	System Error	TOTAL
Adult Social Care	0	1	0	1	0	2
Children, Families and Education	0	20	1	2	0	23
Corporate Services	0	11	1	0	0	12
Executive	0	0	0	0	0	0
Culture, Leisure and Regulatory Services	0	2	0	0	0	2
Finance and Resources	0	4	1	0	1	6
Housing Neighbourhood and Building Services	0	13	2	0	0	15
Port	0	0	0	0	0	0
Public Health	0	0	0	0	0	0
Regeneration	0	5	1	0	0	6
External/Not Known	0	3	0	0	0	3
TOTAL	0	59	6	3	1	69

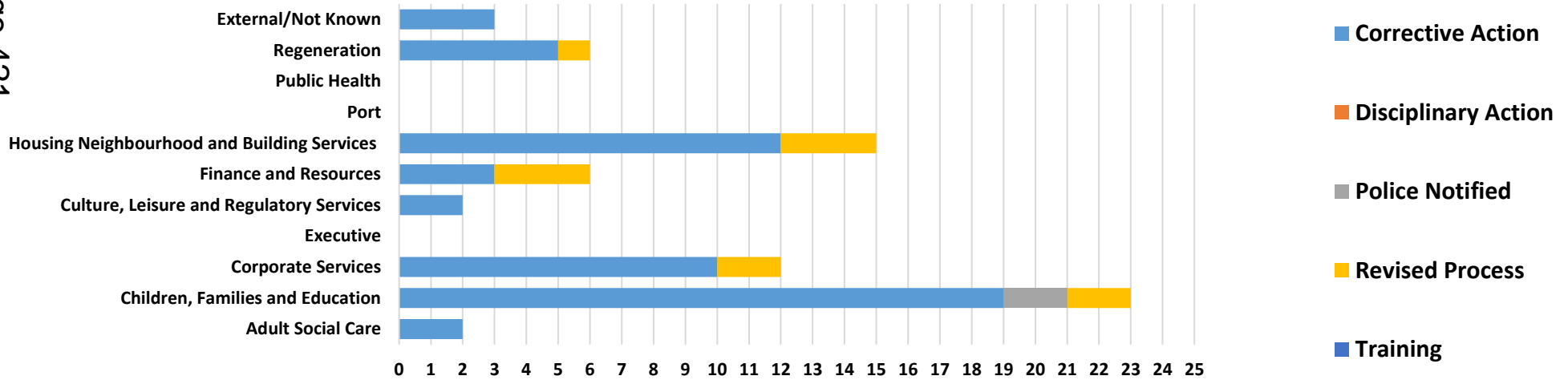


Action Taken



	Corrective Action	Disciplinary	Police Notified	Revised Process	Training	TOTAL
Adult Social Care	2	0	0	0	0	2
Children, Families and Education	19	0	2	2	0	23
Corporate Services	10	0	0	2	0	12
Executive	0	0	0	0	0	0
Culture, Leisure and Regulatory Services	2	0	0	0	0	2
Finance and Resources	3	0	0	3	0	6
Housing Neighbourhood and Building Services	12	0	0	3	0	15
Port	0	0	0	0	0	0
Public Health	0	0	0	0	0	0
Regeneration	5	0	0	1	0	6
External/Not Known	3	0	0	0	0	3
TOTAL	56	0	2	11	0	69

Apologies are routinely given, to data subject(s) and to others adversely impacted by data breaches.



Data Breaches Summary

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2020016	Regeneration	Y	N	Human Error	Corrective Action	Personal data disclosed in error by email
DB2020017	Regeneration	Y	Y	Inappropriate Action by Staff	Corrective Action	Member of staff inappropriately accessed a letter addressed to another member of staff. No further action required by ICO
DB2020018	Finance & Resources	Y	N	Human Error	Corrective Action	Letter sent to wrong person.
DB2020019	Housing Neighbourhoods & Building Services	Y	N	Inappropriate Action by Staff	Corrective Action	Personal data disclosed without consent.
DB2020020	Housing Neighbourhoods & Building Services	Y	N	Human Error	Revised Process	Letters sent to wrong addresses due to automated enveloping error.
DB2020021	Corporate Services	Y	Y	Human Error	Corrective Action	Personal data disclosed in error in childcare proceedings. No further action required by ICO
DB2020022	Corporate Services	N	N	Human Error	Corrective Action	Email sent to the wrong person.
DB2020023	Corporate Services	N	N	Human Error	Corrective Action	Email sent to the wrong email address.
DB2020024	Children, Families & Education	Y	N	Human Error	Corrective Action	Personal data disclosed in error by email.
DB2020025	Housing Neighbourhoods & Building Services	Y	N	Human Error	Corrective Action	Email sent to the wrong email address.
DB2020026	Corporate Services	Y	N	Human Error	Corrective Action	Personal data disclosed in error in court proceedings.
DB2020027	Housing Neighbourhoods & Building Services	N	N	Human Error	Corrective Action	Email sent to the wrong email address.

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2020028	Adult Social Care	Y	N	Human Error	Corrective Action	Records containing personal data found in a public place.
DB2020029	Finance & Resources	Y	N	Human Error	Revised Process	Remittance advice sent to the wrong person.
DB2020030	Housing Neighbourhoods & Building Services	Y	N	Human Error	Corrective Action	Email sent to the wrong email address.
DB2020031	Housing Neighbourhoods & Building Services	Y	N	Human Error	Revised Process	Email sent to the wrong email address.
DB2020032	External/ Not Known	Y	N	Human Error	Corrective Action	Email sent to the wrong email addresses.
DB2020033	Children, Families & Education	Y	N	Inappropriate Action by Staff	Corrective Action	Documents inappropriately filed on PCC Drive.
DB2020034	Corporate Services	N	N	Inappropriate Action by Staff	Revised Process	Personal data disclosed in error in training session.
DB2020035	Children, Families & Education	N	N	Human Error	Corrective Action	Email addresses of all recipients of email visible.
DB2020036	Housing Neighbourhoods & Building Services	Y	N	Human Error	Corrective Action	Personal data disclosed in error.
DB2020037	Housing Neighbourhoods & Building Services	Y	N	Human Error	Corrective Action	Email sent to the wrong email address.
DB2020038	Corporate Services	N	N	Human Error	Corrective Action	Email sent to the wrong email address.
DB2020039	Corporate Services	Y	N	Human Error	Corrective Action	Email addresses of all external recipients of Teams meetings visible.
DB2020040	Children, Families & Education	Y	N	Human Error	Corrective Action	Email sent to the wrong email address.

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2020041	Children, Families & Education	N	N	Human Error	Corrective Action	Email sent to the wrong email address.
DB2020042	Children, Families & Education	Y	N	Human Error	Corrective Action	Personal data disclosed in error to schools
DB2020043	Corporate Services	Y	N	Human Error	Corrective Action	Email and letter sent to the wrong person.
DB2020044	Corporate Services	Y	N	Human Error	Corrective Action	Email sent to the wrong email address.
DB2020045	Children, Families & Education	Y	Y	Human Error	Corrective Action	Letter and documents sent to wrong person. No further action required by ICO
DB2020046	Corporate Services	Y	N	Human Error	Corrective Action	Personal data disclosed in error by email.
DB2020047	Children, Families & Education	Y	N	Human Error	Corrective Action	Personal data disclosed in error by email.
DB2020048	Housing Neighbourhoods & Building Services	Y	N	Human Error	Corrective Action	Email sent to the wrong email address.
DB2020049	Housing Neighbourhoods & Building Services	Y	N	Human Error	Corrective Action	Photograph of service user taken on staff member's personal mobile and appeared on social media in error.
DB2020050	Regeneration	N	N	Human Error	Revised Process	Personal data disclosed in error by letter.
DB2020051	Corporate Services	Y	N	Human Error	Revised Process	Personal data disclosed in error in childcare proceedings.
DB2020052	Children, Families & Education	Y	N	Human Error	Corrective Action	Email sent to the wrong email address.
DB2020053	Regeneration	Y	N	Human Error	Corrective Action	Email addresses of external contacts visible to all recipients.
DB2020054	Housing Neighbourhoods & Building Services	Y	N	Human Error	Corrective Action	Personal data disclosed in error by letter.

Glossary

Information Commissioner's Office (ICO)

The Information Commissioner's Office is a non-departmental public body which reports directly to the United Kingdom Parliament and is sponsored by the Department for Digital, Culture, Media and Sport. Its role is to uphold information rights in the public interest.

<https://ico.org.uk/>

Response time/Notifying the ICO of Data Breaches

The ICO needs to be notified of more serious data breaches. A self-assessment is available on the ICO's website, to identify if it needs to be notified of a data breach. This needs to be done within 72 hours, which is the key response metric monitored by the internal team.

<https://ico.org.uk/for-organisations/report-a-breach/personal-data-breach-assessment/>

Medium

This is the format of the information constituting the data breach. In the summary graph towards the beginning of the report where a breach occurs in multiple formats this is categorised as 'multiple'; more detail is provided in the comments column of the data breaches detail page within this report.

Number Impacted

This is the number of individuals whose personal information was potentially compromised through a data breach.

Root Cause

The categories of root cause are based on guidance for the NHS Security Toolkit; this is widely used across the public sector, to assess arrangements against good practice.

Action Taken

These are the primary actions taken to respond to/rectify a data breach; all breaches result in an apology to those impacted.

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Agenda Item 15

THIS ITEM IS FOR INFORMATION ONLY

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Portsmouth
CITY COUNCIL

Title of meeting:	Governance and Audit and Standards Committee
Subject:	Procurement Management Information
Date of meeting:	20 th November 2020
Report by:	Richard Lock - Acting Procurement Manager
Wards affected:	N/A

1. Requested by

Governance and Audit and Standards Committee.

2. Purpose

To provide evidence to allow the committee to evaluate the extent that Portsmouth City Council is producing contracts for goods, works and services in a legally compliant value for money basis.

3. Information Requested

The report covers 3 key performance monitoring areas:

- Spend compliance
- Contract award via waiver
- Contract management performance monitoring

At the request of the committee at the last meeting on 24th July 2020 the base line data used to calculate summary figures is included as the following exempt appendixes:

- EXEMPT - G&A - Procurement MI - App 1 Spend Compliance Sep 20 - 11.11.20
- EXEMPT - G&A - Procurement MI - App 2 Waivers Aug / Sep / Oct 20 - 11.11.20
- EXEMPT - G&A - Procurement MI - App 3 Contract KPIs Aug / Sep / Oct 20 - 11.11.20

The report provides comparison between performance from the last time period reported to the committee on 25th September 2020 which covered June - August 2020 when the council had moved from responding to the CVD19 pandemic to the early stages of recovery from the pandemic to the last quarter covering August - October 2020 which has shown a continued recovery in respect of Council operations, albeit to a an adjusted manner of operations.



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Where detail is required by the committee the Procurement Manager will provide this during the committee meeting, however where questions relate to detail included within the exempt appendices responses cannot be provided whilst the public live streaming is in operation.

SECTION 1 - SPEND COMPLIANCE

The table on the following page provides a comparison of spend compliance from the last report taken to the committee on 25th September 2020 which covered the month of August 2020 against spend compliance covering the month of September 2020.

Compliance is measured initially by reporting on spend linked to a contract entry which has been raised on the council's InTend system. The presence of a contract entry on the InTend system implies that either:

- The contract has been awarded following a procedure which complies with the council's Contract Procedure Rules (CPRs) and wider statutory Public Contracts Regulations (2015) (PCRs)
- A waiver to depart from requirements set out within the council's CPRs and / or PCRs has been approved by the relevant director, Procurement Manager and / or Procurement Gateway Board as proportionate to the value and risk associated with the contract in question

It should be noted that as compliance is determined by the presence or not of a contract entry which may have been subject to award via waiver which approves departure from CPRs and / or PCRs, 'compliance' in this instance is defined as system compliance rather than constitutional or legal compliance.

It should also be noted that the report does not include for financial transactions from all of the council's systems and solutions. This includes for payments made via purchasing cards, utilities transactions, social care systems, CHAPS payments, cheque payments, etc.

Further analysis and subsequent updating of the report is then undertaken by the Procurement Manager to identify any spend which is actually compliant by virtue of application of competitive process, departure via waiver agreed or to be agreed and valid exemptions.

A summary of the analysis undertaken by service area is included within the report subsequent to the data table. A target of 95% compliance overall and by service has been set previously by the committee.

Compared to August the raw system compliance for September has been maintained at approx. 80% still significantly from the 64% the raw compliance figure for May. Since September Procurement have now recruited additional administrative resource and a dedicated contract management officer who will be tasked with increasing the raw compliance figure.

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Following adjustment the compliance figure for September is approx. 96% which is slightly down the 97% compliance figure reported for August.

Procurement will continue to focus upon improving performance in respect of recording contract information by continuing to request this from officers and providing an extra level of assistance through the addition of new admin resource.

Procurement will also task the contract management officer with reviewing the level of information requested for contract entries as unnecessary complications may be a barrier to receiving prompt accurate information from services.

Procurement are continuing to participate within the Fusion project which will greatly improve data recording and retrieval from finance systems. This includes investigating how greater compliance data capture can be achieved across all council systems, through both short term workarounds and on a long term basis via the Fusion project.

Key

- **NC - Non-compliant**
- **C - Compliant**

Directorate	August 2020			October 2020		
	Total £	NC £	C %	Total £	NC £	C %
Adult Services	£572,280	£42,767	92.5%	£566,292	£16,586	97%
Children Families & Education	£1,185,780	£2,879	99%	£1,155,645	3,144.00	100%
Corporate Services	£623,450	£52,237	91.5%	£500,131	£49,801	90%
Culture Leisure & Regulatory Services	£2,991,767	£31,195	89.5%	£187,368	11,041.36	94%
Executive	£8,465	£1,351	84%	£0	£0	100%
Finance	£1,070,121	£9,473	99%	£116,808	£8,257	93%
Housing Neighbourhood & Building Services	£3,959,733	£69,685	98%	£4,943,930	£108,759	98%
Portsmouth International Port	£655,752	£0	100%	£884,833	£0	100%
Public Health	£465,164	£0	100%	£185,153	£8,088	96%
Regeneration	£186,423	£41,494	77.5%	£422,159	£117,401	72%

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Capital schemes	£3,163,848	£92,097	97%	£2,660,257	£110,432	96%
Other	£11,041	£10,000	90.5%	£7,474	£360	95%
TOTAL	£12,201,233	£353,177	97%	£11,630,054	£433,873	96%

Below is a summary of the nature of the non-compliant spend by service area and assessment of risk by the Procurement Manager. Full details have been made available to the committee in the exempt information which accompanies this report - 'G&A - Procurement MI - App 1 Spend Compliance Sep 20 - 11.11.20'.

Adult Services

No significant concerns and above 95% compliance figure. Some work required to review food supply contracts although all spend is below PCC tender threshold of £100k and significantly below £189k threshold for supplies under Public Contracts Regulations (2015).

However, it should be noted that as stated previously these figures do not include for payments made to social care providers which are processed via the Controc system.

Children, Families & Education

Compliance has increased through further analysis of payments made for out of area educational services which has removed this spend from the non-compliance figure. Waivers are currently being drafted on the basis that this activity is not compatible with standard competitive procurement processes and have been approved in principle.

As stated to the committee previously the services in question are sourced from specialist niche suppliers, often subject to user decisive user choice, in the case of educational services are often sourced from fellow public sector bodies and are all classed as services which fall under the light touch regime - the value for which is approx. £589k.

However, it should be noted that as stated previously these figures do not include for payments made to some children's social care providers which are processed via the Mosaic system.

Corporate Services

Whilst compliance has fallen below the 95% target to 90% risk is considered low as the total non-compliant spend is low at £49,801 and spread across a number of suppliers, with no one transaction exceeding the council's tender threshold of £100k by overall order distribution value. Work will need to be undertaken to review arrangements for public notices and advertising space although it should be stressed that the values fall below the PCC tender threshold of £100k and the £189k service threshold under Public Contracts Regulations (2015).



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Culture Leisure and Regulatory Services

Whilst compliance is slightly below the 95% target at 94% compliance risk is still considered low as non-compliant spend is only £11,041 and is spread across a range of suppliers. Review is required of a consultancy contract which has a distribution value of £60k although again it should be stressed that this is not perceived as a high risk contract in terms of compliance.

Executive

No spend.

Finance

No significant concerns. Although compliance is 93% non-compliant spend is only £8,257. Investigation required of below £100k distribution value transactions regarding salary sacrifice scheme payments.

Housing Neighbourhood and Building Services

No significant concerns and compliance is at 98%.

Some non-compliant transaction have a distribution order value in excess of £100k for electrical services however extension of the contract in question has been approved and the contract entry requires updating.

However, it should be noted that payments to utilities providers managed on behalf of the council by this service are not included, they are however known by the Procurement manager to be compliant in this area of spend.

Portsmouth International Port

No concerns.

Public Health

No concerns.

Regeneration

No significant concerns. Whilst the compliance target has been missed and is currently at 72% the total value of non-compliant transactions is only £117,401 and is spread across a number of suppliers.

However, one transaction has a distribution order value of £150k which is for the appointment of an interim asset manager at Lakeside. This is not considered high risk as the value is still below the £189k statutory threshold as per Public Contracts Regulations (2015). The Procurement manager will engage with the relevant service officer to put a waiver in place and put a plan in place for bringing the contract into compliance.

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Capital Schemes & Other

No concerns.

SECTION 2 - CONTRACT AWARD VIA WAIVER

The tables below show a comparison of contracts awarded via waiver in June / July / August 2020 as per the report taken to committee on 25th September 2020 against those awarded via waiver for August / September / October 2020.

Whilst waivers are to be sought for any significant departure from the council's CPRs the report focuses upon waivers which have constituted a direct award without application of competition to the protocols set out within the CPRs and wider statutory PCR's.

In order to effectively respond to the Covid19 pandemic a higher number of waivers have been sought on this basis. This has been due in one hand to quickly source essential emergency supplies, services and works, but also to extend contracts outside of specified terms where council and supplier resources that would have run or responded to re-tendering processes were redeployed onto essential response activities or, in the case of some supplier bidding teams, furloughed.

There is clear provision within the PCRs to allow for direct award and contract variations in order to respond to genuine emergency situations such as the Covid19 pandemic. The Cabinet Office issued a Procurement Policy Note (PPN 01/20) on 18th March 2020 to remind public sector bodies of the flexibilities allowed for within PCRs already and as such did not introduce any new policy on this basis.

Whilst lack of resource is not usually allowed for as a valid reason to delay re-tendering processes via direct award to the incumbent supplier it is of the opinion of the Procurement Manager that this has in effect become the norm across the public sector following the introduction of stringent lockdown measures by central government on 23rd March.

This opinion is informed by continual peer review with procurement managers who represent a large number of county and unitary councils on the Central Buying Consortium, direct discussion with Cabinet Office, feedback from suppliers and engagement with QCs who specialise in procurement law cases via a number of webinars.

Use of direct awards to extend contracts on this basis is viewed as low risk in terms of potential for challenge as long as the term of the direct award is proportionate to the time required to run an effective re-tender and is not unnecessarily long to the point where it can be construed as creating an artificial barrier to competition.

Under the CPRs waivers can be approved by:

- Director including for Assistant Directors given delegated authority by the Director - up to £100k
- Procurement manager - up to £1M

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- Procurement Gateway Board - above £1M

In order to respond efficiently and effectively the Procurement Manager agreed in conjunction with Legal and Audit on 1st April 2020 via email that the waiver and extension could be streamlined to effective summary rationale without full completion of standard forms where the need for the waiver could be directly linked to the impact of the Covid19 pandemic. This was on the condition that key approvals from the Director / AD, Procurement, Legal and Finance were still obtained and recorded.

The Procurement Manager also delegated approval of waivers on a procurement basis to the IT Category Manager / Assistant Procurement Manager at a limit of £500k and to Procurement Professional at a limit of £250k. It is the intention of the Procurement Manager to maintain these delegations for business as usual authorisations in the future.

Use of direct award waivers

	June / July / Aug 2020		Aug / Sept / Oct 2020	
Reason for direct award waiver	Number of Contracts	Contract value	Number of Contracts	Contract value
Business as Usual Direct award	20	£8,935,594	29	£ 9,785,001
Waivers agreed due to Covid-19 (re-tender delay)	2	£467,000	1	£51,000
Waivers in response to Covid-19 (emergency supplies / services)	41	£659,947	36	£981,708
Total	63	£10,062,541	66	£10,817,709

Below is a summary level analysis undertaken by the Procurement Manager. Full details have been made available to the committee in the exempt information which accompanies this report - 'G&A - Procurement MI - App 2 Waivers Aug / Sep / Oct 20 - 11.11.20'.

Business as Usual Direct Awards

No significant concerns. The figures have been skewed significantly via the award of an out of term extension to Biffa for delivery of domestic waste collection services. A further 2 to 2 ½ year extension outside of the advertised term to a value of £8.25M has been granted by Procurement Gateway Board.

The rationale for the waiver is as follows:

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This extension will enable the council to understand fully the impacts of the Environment Bill (explained in detail below) that is currently progressing through Parliament and carry out an effective procurement process that delivers a service that is aligned to that, further to this:

- The council are awaiting the outcomes of the consultation in relation to the waste and resources strategy. This is important as the Environment Bill is likely to legislate for separate food waste collections, consistency of materials collected, deposit return scheme, and extended producer responsibility. It may also stipulate which materials should be collected for recycling and make reference to collections models and frequency. These outcomes would impact the design of collection rounds and make it difficult to design the requirements of the domestic waste collection contract to align with those outcomes.
- The council is currently piloting food waste collections - the second food waste trial will be rolled out in September 2020 with a view to rolling this out city wide from 1 October 2021. This decision is yet to be taken and is linked to a number of other strategic projects related to the Waste Disposal Service contract and waste collections going forward.
- Waste Collections strategy - the administration is committed to reducing waste and improving recycling and as such has made changes to the refuse collection system (2018 - introduced wheeled bins and 3 standard bin bag allowance) and is now trialling separate food waste collections. The council needs to consider an improvement to the range of materials that can be collected at the kerbside (other plastics, cartons, glass). This strategy and design is intrinsically linked to provision of infrastructure to process these materials. There are a number of different permutations for the collection and disposal of these waste streams, dependent upon decisions made about the infrastructure and the outcomes of the Environment Bill. .
- Waste Disposal Service Contract - as a unitary authority, the Council is also the disposal authority and is currently working with partners on a number of strategic projects.
- The new MRF would replace the existing two MRFs provided under the WDSC. The cases for both of these projects have some dependence on the outcome of the consultations of the Environment Bill and will inform the strategic direction of waste collection and disposal going forward. These issues particularly influence collection round design and vehicle requirements.

Risk assessment has been informed by direct market testing with leading market suppliers who had no issues with the proposed extension and would rather bid for the contract in the future with a higher degree of specification certainty.

An OJEU Contract Award Notice was issued following approval in order to transparently inform the market of the Council's intentions and time out period for challenges. To date no enquiries have been received regarding the notice and none are expected.

As stated in the notice a formal procurement process to retender the contract will be undertaken in accordance with the following programme:

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- Issue OJEU Contract Notice & SSQ - April 2021
- Establish dialogue shortlist - June 2021
- Commencement of dialogue stages - September 2021
- Contract Award - September 2022
- Mobilisation commencement - October 2022
- New service commencement - October 2023

Waivers agreed due to Covid-19 (re-tender delay)

No significant concerns and the number and value of waivers has decreased significantly. There is still a significant backlog of tenders which were delayed due to the CVD19 pandemic, particularly in Adult Social Care and Children's Social Care where resources were reassigned to deal with the immediate impacts of the pandemic. Waivers to extend contracts were approved in the previous quarter however further direct award extensions to some contracts may be required in the coming quarter so that programmes can be staggered in view of ongoing resource pressures for the council and suppliers alike.

Waivers in response to Covid-19 (emergency supplies / services)

No significant concerns. Whilst the number of waivers is still high the value has decreased significantly. This is due to:

- Build up of buffer PPE stock in the previous quarter meaning that further high volume orders have not been required and a move towards central government supply through PPE portal
- Demand for food supply to shielded and vulnerable individuals reducing as restrictions have been removed and normal supply has resumed
- IT equipment and licenses required to enable home working infrastructure were purchased in the previous quarter and will not require renewal for some time
- Waivers for placing non-statutory homeless within hotels has reduced as better longer term alternatives have become available which can be contracted for compliantly without the need for further waivers

It is expected that the requirement CVD19 response waivers will further reduce over the next quarter although there will still be some demand.

One waiver has been approved to retain the services of the security provider used by the IBIS Hotels when homeless were placed there in order to maintain continuity in the interests of safety and welfare.

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SECTION 3 - CONTRACT MANAGEMENT PERFORMANCE MONITORING

Contract management performance is monitored at summary level by application of a set of standard KPIs which are scored and reported on via the InTend system. Contracts are reported on against the following criteria:

Key

- Gold: Outstanding performance
- Green: Performing to standard
- Amber: Some areas of improvement required
- Red: Failing to perform
- Expired KPI: a schedule is in place, and at least one KPI score has been recorded, but there has been no KPI scoring in the last 12 months
- KPI never scored: a schedule is in place, but there have been no KPI scores for the contract
- KPI not yet due: a schedule is in place, but KPI scores are not due yet. This includes contracts where KPIs are overdue by less than 3 months (grace period)
- No KPI scheduled: no KPI instances have been scheduled.

KPI performance is as follows:

	June / July / Aug 2020				Aug / Sept / Oct 2020			
	Value of Contracts		Number of Contracts		Value of Contracts		Number of Contracts	
RED	£0	0.00%	0	0.00%	£0	0.00%	0	0.00%
AMBER	£37,323,250	1.93%	17	1.90%	£24,246,888	1.56%	18	1.90%
GREEN	£1,263,725,864	65.36%	260	29.12%	£1,126,291,985	72.66%	240	25.40%
GOLD	£19,690,019	1.02%	34	3.81%	£26,637,050	1.72%	38	4.02%
KPI never scored	£147,227,339	7.61%	136	15.23%	£144,788,562	9.34%	129	13.65%
NO KPI scheduled	£178,673,810	9.24%	157	17.58%	£225,119,310	14.52%	166	17.57%
NOT YET DUE	£38,123,275	1.97%	182	20.38%	£889,292	0.06%	161	17.04%
KPI expired	£248,806,777	12.87%	107	11.98%	£2,093,917	0.14%	193	20.42%
Grand Total	£1,933,570,334	100.00%	893	100.00%	£1,550,067,004	100.00%	945	100.00%

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Below is a summary level analysis undertaken by the Procurement Manager. Full details have been made available to the committee in the exempt information which accompanies this report - 'G&A - Procurement MI - App 3 Contract KPIs Aug / Sep / Oct 20 - 11.11.20'.

There are no red status contracts but there are a number of contracts which are amber and require improvement. Whilst this number has increased it is still relatively low in terms of both value and volume. However Procurement will find out why these contracts are not performing to full standard, support the relevant contract managers and update the committee.

What is still of more concern are the number of contracts where the KPI has never been scored or has not been scored for some time. Procurement focus has been on bringing raw spend compliance up by gaining better visibility of contracts.

Over the next quarter work will be undertaken to ensure that contract performance is better reported on across all contracts by contacting the relevant contract managers and offering support. This will be significantly aided by the recruitment by Procurement of additional admin resource and a dedicated contract management officer.

Work will also be undertaken to begin reviewing the corporate KPI model to ensure that a relevant, proportionate approach is taken which will in turn increase take up and produce timely, accurate and comparative results.

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Signed by Richard Lock - (Acting) Procurement Manager

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