



NOTICE OF MEETING

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

WEDNESDAY, 8 MARCH 2023 AT 10.00 AM

COUNCIL CHAMBER - THE GUILDHALL, PORTSMOUTH

Telephone enquiries to James Harris on 023 9260 6065

Email: james.harris@portsmouthcc.gov.uk

If any member of the public wishing to attend the meeting has access requirements, please notify the contact named above.

Membership

Councillor Leo Madden (Chair)
Councillor Dave Ashmore
Councillor Stuart Brown
Councillor Judith Smyth
Councillor Benedict Swann
Councillor Daniel Wemyss

Standing Deputies

Councillor Simon Boshier
Councillor Graham Heaney
Councillor Ian Holder
Councillor Mark Jeffery
Councillor Abdul Kadir
Councillor Scott Payter-Harris
Councillor John Smith

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

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

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

Public health guidance for staff and the public due to Winter coughs, colds and viruses, including Covid-19

- Following the government announcement 'Living with Covid-19' made on 21 February 2022 and the end of universal free testing from 1 April 2022, attendees are no longer required to undertake any asymptomatic/ lateral flow test within 48 hours of the meeting; however, we still encourage attendees to follow the public health precautions we have followed over the last two years to protect themselves and others including vaccination and taking a lateral flow test should they wish.
- We strongly recommend that attendees should be double vaccinated and have received any boosters they are eligible for.
- If unwell we encourage you not to attend the meeting but to stay at home. Updated government guidance from 1 April 2022 advises people with a respiratory infection, a high temperature and who feel unwell, to stay at home and avoid contact with other people, until they feel well enough to resume normal activities and they no longer have a high temperature. From 1 April 2022, anyone with a positive Covid-19 test result is still being advised to follow this guidance for five days, which is the period when you are most infectious.
- We encourage all attendees to wear a face covering while moving around crowded areas of the Guildhall.
- Although not a legal requirement, attendees are strongly encouraged to keep a social distance and take opportunities to prevent the spread of infection by following the 'hands, face, space' and 'catch it, kill it, bin it' advice that protects us from coughs, colds and winter viruses, including Covid-19.
- Hand sanitiser is provided at the entrance and throughout the Guildhall. All attendees are encouraged to make use of hand sanitiser on entry to the Guildhall. • Those not participating in the meeting and wish to view proceedings are encouraged to do so remotely via the livestream link

AGENDA

1 Apologies for Absence

2 Declarations of Members' Interests

3 Minutes of the meeting held on 25 January 2023 (Pages 7 - 12)

RECOMMENDED that the minutes of the meeting held on 25 January 2023 be approved and signed by the Chair as a correct record.

4 Annual Governance Statement (Pages 13 - 42)

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 2021/22

RECOMMENDED that the Committee is asked to agree the Annual Governance Statement 2021/22 Appendix 1)

(to be signed off before the Statement of Accounts)

5 External Audit - Audit Results Report Year Ended 31 March 2022

The purpose of this report is to summarise the preliminary audit conclusion in relation to the audit of Portsmouth City Council for 2021/22.

Report to follow under separate cover.

RECOMMENDED that the Governance & Audit & Standards Committee notes the report.

6 Statement of Accounts (Pages 43 - 222)

The purpose of the report is for the Governance, Audit & Standards Committee to consider the Statement of Accounts for 2021/22.

Recommended that:

(i) the Statement of Accounts be approved; and

(ii) authority be delegated to the Chair of the Governance and Audit and Standards Committee to sign an amended 2021/22 Statement of Accounts after 8th March 2023 should this be required following comments by the auditor.

7 Treasury Management Policy for 2023/24 (Pages 223 - 260)

The purpose of this report is to obtain the Council's approval of the updated Treasury Management Policy Statement (attached) which includes the Annual Investment Strategy.

RECOMMENDED that the Committee note the recommendations in section 3 of the report that will go on to Full Council for approval.

8 Internal Audit Performance Status Report to 21 February 2023 & Internal Audit Plan 2023/24 (Pages 261 - 286)

The purpose of this report is update the Governance and Audit and Standards Committee on Internal Audit Performance for 2022/23 to 21 February 2023 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework and to present the proposed Internal Audit Plan for 2023/24 to the committee for approval, as set out in Appendix B.

Recommended that members

- (i) note the Audit Performance for 2022/23 to 21 February 2023;**
- (ii) note the highlighted areas of concern in relation to audits completed from the 2022/23 Audit Plan, including follow up work performed; and**
- (iii) approve the proposed Internal Audit Plan for 2023/24.**

9 Data Security Breaches Report (Pages 287 - 306)

The purpose of this report is to inform the Committee of any Data Security Breaches and enable them to determine whether any trends appear and whether any further actions should be recommended.

RECOMMENDED that the Governance & Audit & Standards Committee notes the breaches that have arisen.

10 Appointment of Independent Person (Pages 307 - 310)

To consider the re-appointment of an Independent Person whose term of office expires this May 2023, pursuant to the provisions of Section 28 of the Localism Act 2011.

11 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.*
12. Procurement Management Information (Exempt Appendices 1, 2, 3 & 4)	3

***3. Information relating to the financial or business affairs of any particular person (including the authority holding that information.**

12 Procurement Management Information (Pages 311 - 360)

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 also updates the committee on progress developing procurement performance reporting.

The report is for noting.

Members of the public are permitted to use both audio visual recording devices and social media during this meeting, on the understanding that it neither disrupts the meeting nor records those stating explicitly that they do not wish to be recorded. Guidance on the use of devices at meetings open to the public is available on the Council's website and posters on the wall of the meeting's venue.

Whilst every effort will be made to webcast this meeting, should technical or other difficulties occur, the meeting will continue without being webcast via the Council's website.

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Agenda Item 3

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Wednesday, 25 January 2023 at 10.00 am at the Council Chamber - 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 Dave Ashmore
Councillor Stuart Brown
Councillor Judith Smyth
Councillor Benedict Swann
Councillor Daniel Wemyss

Officers

Peter Baulf, City Solicitor
James Berry, Companies Lawyer
Elizabeth Goodwin, Chief Internal Auditor
Richard Lock, Procurement Manager
Julian Pike, Deputy Director of Finance & S151 Officer
Paul Somerset, Deputy Chief Internal Auditor

1. Apologies for Absence (AI 1)

There were no apologies for absence.

2. Declarations of Members' Interests (AI 2)

There were no declarations of interest.

3. Minutes of the Meeting held on 23 November 2022 (AI 3)

The minutes of the meeting held on 23 November 2022 were confirmed and signed as a correct record subject to the below amendment (in italics) to paragraph five of minute 51:

'The committee noted the gifting of a Fortnum & Mason hamper to the Leader of the City Council by Portsmouth Football Club and aired concerns that the value was not known and that it appeared to have been accepted. Upon researching the matter members of the committee noted that the lowest value Fortnum & Mason hamper was £70 at the time of the meeting.'

In respect of the Fortnum and Mason hamper that had been gifted to the Leader, the Chairman confirmed that he would write to the Leader on behalf

of the committee to convey its disappointment that the estimated value had not been disclosed.'

4. Contract Procedure Rules (AI 4)

(TAKE IN REPORT)

Richard Lock, Assistant Director (Procurement), introduced the report which sought approval to replace the council's current Contract Procedure Rules (CPRs)

He advised that adopting the revised rules would help ensure that the council is able to more effectively and proportionally discharge its procurement function in readiness for the forthcoming legislative procurement reforms. The revised rules would also provide a dynamic platform from which to implement existing and future locally led policy within the council's procurement practices.

James Berry, Companies Lawyer, explained the legal basis behind having the rules and the council's duty to ensure best value. The revised CPRs had been structured to guide officers through the procurement process in a user-friendly way with a focus on the legal obligations.

In response to questions the committee was advised:

- The increase of contract waivers from £100k to £150k was a local matter to determine, as the statutory limit was £213k. Uplifting to £150k would continue to provide a generous buffer against the statutory limit whilst also giving services great flexibility;
- The matter around clauses preventing former officers to be employed as consultants would be looked into;
- Part 10 (Options Appraisal) of the proposal referred to in-house options and this would be at the pre-procurement stage rather than the council entering a formal bidding process;
- Social value was widely implemented across the council. The Council had a social value policy and Part 10 required officers to comply with the social value duty and to follow the Council's social value policy; and
- Training by CIPFA was scheduled to take place and the e-learning package used previously was being reviewed to ensure that relevant officers were sufficiently trained in procurement.

In respect of paragraph 7.3.1 of the proposed CPRs it was believed that it should be made clear that small grants should be dealt with via a small grants regime, with larger grants to not for profit organisations subjected to a more thorough process.

A concern was raised about the focus of the document being around the procurement exercise rather than outcomes, particularly with regard to the best results for service users. The inclusion of this within the document was predicted to enable the better management of outcomes and assist with contract monitoring.

Not all members believed that it was necessary for outcomes to be included within this specific document.

In reply, the Assistant Director (Procurement) explained that the CPRs had been designed to be neutral to allow flexibility for services. The CPRs set the tone, with the governance documents underneath this framework dealing with the details and the contract specification.

The committee supported the revised CPRs but requested that paragraphs 10, 12 and 34 be amended to provide a greater emphasis on outcomes.

Given the timescales prior to Full Council the committee was happy to confirm the specific wording via email and for the CPRs to be presented to Council in the amended form.

RESOLVED that the Governance & Audit & Standards Committee

- (i) ENDORSED the revised CPRs as attached at Appendix A, subject to additional and/or amended wording in Section 10 to provide a greater emphasis on outcomes; and**
- (ii) RECOMMENDED that Full Council resolves to approve those revised CPRs, as amended at the request of the Governance & Audit & Standards Committee to include amended and/or additional wording in paragraphs 10, 12 and 34 to provide a greater emphasis on outcomes, as an amendment to Part 3A of the Council's Constitution, to be fully implemented and take effect from 1 July 2023.**

5. Treasury Management Monitoring Report for the Third Quarter of 2022/23 (AI 5)

(TAKE IN REPORT)

Julian Pike, Deputy Director of Finance & S151 Officer, introduced the report which informed members of the council's treasury management position, namely its borrowing and cash investments at 31 December 2022 and of the risks attached to that position.

He confirmed that the council's treasury management activities had remained in line with the Treasury Management Policy apart from one instance where the treasury management limit had been exceeded on one day, Friday 2 December 2022. A £5m deposit had been made to a counter party which took the totals in that counter party to £29m, exceeding the £26m approved limit. The error had been noticed the same day and immediate action taken to recover the money. The money was returned to the council on the next banking day, Monday 5 December 2022. The Leader and Chair of the Governance & Audit & Standards Committee had been notified of the error, as required by the council's Treasury Management Policy.

Interest earned on deposits had continued to run ahead of budget due to there having been nine interest rate rises since the forecast was made.

In response to a question, it was explained that the depositing error had been due to an officer's recollection of how much had been invested within that counter party being incorrect. To mitigate against this error being repeated the officer had been formally reminded to check all such transactions against the loan register prior to making any such investment and the loan register itself would be reviewed weekly rather than monthly.

The committee requested future sight of the Cabinet reports detailing the performance of the council's investment properties.

RESOLVED that the Governance & Audit & Standards Committee NOTED:

- (i) **The Council's Treasury Management activities in the period up to 31 December 2022 set out in Appendix A; and**
- (ii) **The actual Treasury Management indicators as at 31 December 2022 set out in Appendix A.**

6. Internal Audit Performance Status Report to 10th January 2023 (AI 6)

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor, introduced the report which updated the committee on the internal audit performance for 2022/23 to 10 January 2023 against the Annual Audit Plan, highlighted areas of concern and areas where assurance could be given on the internal control framework.

The committee aired concerns about DBS checks for drivers providing home to school transport, which was a high-risk exception. It noted the commentary that testing was unable to confirm the details of the team's DBS and licensing reconciliation, evidence the implementation of the new system or processes, or evidence progression on the contract performance monitoring.

In reply it was explained that an external factor of a cohort of taxi drivers being licensed outside of the city, coupled to significant changes in the staffing structure, had compounded the issue of the council being able to evidence DBS certificates. There were good systems in place if the data was held in-house by the licensing authority at PCC, but if a driver was registered elsewhere, it was often harder to obtain the information.

The committee was very concerned that some children may be being transported to school by drivers without the council having seen evidence of their DBS certificate and requested an update on the situation at the following meeting.

RESOLVED that the Governance & Audit & Standards Committee noted:

- (i) the Audit Performance for 2022-23 to 10 January 2023; and**
- (ii) the highlighted areas of concern in relation to audits completed from the 2022/23 Audit Plan, including follow up work performed.**

7. Whistleblowing Annual Report and Policy (AI 7)

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor introduced the report which updated the committee on the nature and handling of any whistleblowing concerns which have been raised for the period January 2022 to December 2022.

She advised the committee that in the past year there had been three recorded incidents which was a decrease on the previous year.

In response to questions the committee was advised that an investigation was underway in respect of the allegation of bullying, but it was not believed that the officer accused had been suspended.

In respect of the matter of an undeclared secondary employment which received no further action, it was explained that in some instances the secondary employment might not impact the individual's ability to carry out their role at PCC. As an example, an officer may work part time for an external organisation with no conflict or reduction in their ability to perform well in their role at PCC.

RESOLVED that the committee NOTED the report and the Whistleblowing Policy, where no further changes were proposed.

8. Report to Governance & Audit & Standards Committee on complaints received into alleged breaches of the Code of Conduct by Members of the Council for the calendar year 2022 (AI 8)

(TAKE IN REPORT)

Peter Baulf, City Solicitor, introduced the report which updated the committee in relation to complaints which had been progressed within the calendar year 2022 and which alleged that councillors may have breached the Code of Conduct.

He confirmed that four complaints had been processed and all had been dealt with at the Initial Filtering Panel level.

RESOLVED that the committee NOTED the report and placed on record it's thanks to the Independent Persons.

9. Consideration of the political balance rules in relation to the constitution of Sub-Committees considering complaints against Members (AI 9)

(TAKE IN REPORT)

Peter Baulf, City Solicitor, introduced the report.

The committee was asked to consider whether it wished to disapply the political balance rules in respect of its Sub-Committees and the Initial Filtering Panels which considered complaints against Members.

The committee had no questions in respect of this item.

RESOLVED 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.

The meeting concluded at 11.26 am.

Councillor Leo Madden
Chair

Agenda Item 4



Title of meeting: Governance, Audit and Standards Committee

Date of meeting: 8 March 2023

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 Governance, Audit and Standards committee for the council's Annual Governance Statement (AGS) for 2021/22.

2. Recommendations

2.1 Governance, Audit and Standards committee is asked to:

- 1) Agree the Annual Governance Statement 2021/22 (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 committee to monitor governance issues across the authority and ensure they are performance managed. 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 Resources 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 document is attached as Appendix 1. The detail of how the organisation addresses these principles is set out in the Local Code of Governance, which was refreshed in 2021. 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.
- 3.6 The AGS also includes the annual opinion on the effectiveness of the internal system of control from the Chief Internal Auditor.

4. Reasons for recommendations

- 4.1 The 2021/22 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: David Williams, Chief Executive

Appendices: Appendix 1 - Annual Governance Statement 2021/22

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 2021-22

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 2015, regulation 6(1)

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



INTERNAL CONTROLS

Leadership, Culture and Planning

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

Statutory Officers & Decision Making

The Constitution
The Monitoring Officer
Section 151 Officer

Policies & Procedures

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

People, Knowledge, Finance, Assets

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

Scrutiny and Transparency

Freedom of Information requests
Complaints procedure
Reports considered by legal and finance experts
Equality impact assessments
Corporate risk directory
Transparency duty publication

Partnership Working

Community engagement statement
'Have your say'
Consultations
Terms of reference for partnerships

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

In 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 constitution 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.

Anti-fraud, bribery and corruption

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

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 Policy³ (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 policy 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 guidance. The group has an agreed set of terms of reference, which sets out their roles and responsibilities of its members⁴. 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.

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 webpage. 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 Councillor.

The importance of our role as a communicator with the public was clear in the pandemic. We focused our communications capacity on the Protect Portsmouth campaign, which saw the city council become a trusted source of information second only to the NHS. Building on the work we undertook around supporting communities around health needs, we are developing the approach to community engagement, including developing the role of community champions.

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 customer insight team provide professional advice and analysis where required to ensure that consultation processes are robust.

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 procedure 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.

The city has excellent partnership working, with other local authorities and with colleagues in health, including the Clinical Commissioning Group (CCG), Solent NHS Trust, Portsmouth Hospitals University Trust, the police, probation, fire service, University of Portsmouth and with business through Shaping Portsmouth.

For many years, the Council had three key theme-based strategic partnerships - the Health and Wellbeing Board, Children's Trust, and the Safer Portsmouth Partnership. Following a review, these partnerships were 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. The Board agreed a new Health and Wellbeing Strategy in 2022, with a focus on creating the conditions that will enable people living in the city to thrive.

There are other partnership arrangements around the city's regeneration efforts such as the Solent Local Enterprise Partnership (LEP), Solent Transport, and the Partnership for South Hampshire (PfSH). In addition, Portsmouth City and Gosport Borough Council have come together to form the 'Portsmouth Harbour Partnership' to bid in the central government's One Public Estate programme. 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.

Partnerships with colleagues in the health sector have been developing strongly over time, including the strengthening of links with the CCG, by moving to a model for shared functions across adult services, children's services and public health. This is important in order to ensure that services for Portsmouth's population are commissioned and delivered with a strong understanding of local communities and their needs. As the NHS moves towards a different model, working in integrated care systems, we will continue to work closely with colleagues on a place-based basis to ensure that services continue to be as seamless as possible for the people using them.

We continue to develop partnerships across other sectors too. Hive Portsmouth continues to be a key partner for us in working strategically with the voluntary and community sectors, particularly to address the needs of those most vulnerable, including people experiencing financial disadvantage. Portsmouth Creates is developing strongly as a key partner for developing culture and creativity in the city, and Shaping Portsmouth continues to be a significant partner in our work with the business community.

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

In 2019 and 2020, we embarked on an exercise with partners, "Imagine Portsmouth", to create a shared vision for the city. We worked with 2,500 people representing business and organisations who live and work in Portsmouth to talk about our hopes and dreams for our city. We created big bold plans for what we want in the future; for ourselves, our families, our communities, our businesses and our co-workers.

People described the values they wanted to see lived in the city as:

'We believe in:

- equality
- innovation
- collaboration
- respect
- community

'By 2040, we want to see a:

- happy and healthy city
- city rich in culture and creativity
- city with a thriving economy
- city of lifelong learning
- green city
- city with easy travel.'



This vision belongs to the city, not just the council. However, we will be an important part of turning the vision into a reality, so we have set clear priorities for the organisation to help us do that, and also to guide the recovery and renewal of the city in light of the pandemic:

DELIVERING FOR PORTSMOUTH OUR MISSION AND PRIORITIES 2022/23



We will work together with partners and communities to stand up for Portsmouth, take action to improve the city and the lives of our residents, and tackle the climate crisis.

STAND UP FOR PORTSMOUTH

- support people during the cost-of-living crisis
- work with partners to tackle crime and anti-social behaviour
- ensure access to health services
- have a strong voice in our region

IMPROVE LIVES

- deliver major improvement projects
- deliver new, affordable homes
- improve transport
- help people live independent, healthy lives
- ensure access to cultural and leisure opportunities

TACKLE THE CLIMATE CRISIS

- reduce our carbon impact
- support people to take positive action
- encourage wider environmental responsibility
- make the city greener

At heart of the plan is providing the services that our residents rely on, and the support services that enable these to be provide effectively

ensure older people and vulnerable adults are looked after and supported to live independently, maintain our transport infrastructure, parks, open spaces and buildings, offer housing services, support education, early years and children with special educational needs, keep children safe and families together, encourage economic development, provide planning, support culture, museums and libraries, provide benefits and collect council tax and business rates, collect their bins, and keep the city clean.

Planning and monitoring

In order to secure these outcomes for residents and service users, the Council needs to respond to some tough challenges. The biggest share of the money that the local authority receives comes from government grant. Since 2011/12, overall central government funding to PCC has reduced significantly. Taken together with other financial pressures (mainly relating to inflation, Covid-19 recovery, the effects of an ageing population on care services and the increased requirements for safeguarding of vulnerable children - total savings of £103m have been made by the council (48% of controllable spend).

Adult and Children's Social Care (representing in excess of 50% of controllable spend) provide services to the most vulnerable, experience the greatest cost pressures, and have historically received significant protection from savings. The Council's medium-term financial strategy seeks to maximise savings through income generation, economic regeneration and efficiency measures.

In February 2022 full council considered proposals outlining its budget and council tax 2022/23. The key proposals recommended a budget for 2022/23 that provides for:

- savings of £1.825m
- new spending initiatives amounting to £0.825m (including a full city wide roll out of the food waste recycling service)
- a council tax increase of 2.99% (1.0% of which is raised specifically to be passported to adult social care)
- new Capital Investment to the City of £67.8m
- no requirement for any budget savings for 2023/24.

The Covid-19 pandemic has had a significant impact on the budget proposals in both the revised budget for the last financial year, the budget for 2022/23 and future years' forecasts. Some of the financial impacts of the pandemic are expected to be short term in nature (one to two years) but others are expected to endure through the longer term. Excluding business rate reliefs which are fully recompensed by government, the cost of responding to the Covid-19 pandemic in the last financial year is expected to amount to £10.1m with associated government funding of £9.1m.

The budget proposals seek to ensure that the financial position of both adult and children's social care remains robust both in the short and medium term. Additional funding is provided as follows:

- children's social care - £3.9m to cover financial pressures relating to residential placements, care leavers, unaccompanied asylum seekers, inflation and to remove unachievable budget savings
- adult social care - £3.3m to cover the uplift in the national living wage of 6.6% that will be passported to care providers as well as all other inflationary pressures.

Over the next three years (commencing 2022/23), the additional costs of managing Covid-19 and income losses are expected to amount to a further £6.6m but with no specific additional government funding. The Government has provided new funding within the provisional local government settlement of £3.3m for 2022/23 in the form of a 'services grant 2022/23' but this is for all Covid-19 risks. This is to cover all new burdens and all other budget pressures. The cost of managing Covid-19 alone dwarfs the new funding by government. While it is not possible to quantify the longer term impacts of Covid precisely, it is anticipated that there will be ongoing impacts on care services, some sources of

income and both council tax and business rates receipts. It is likely that inflation and wider economic pressures will become exacerbating factors.

In overall terms, the financial picture over the next two years and beyond is one of increasing costs and demand for services, particularly in essential care services - at the same time as continued reductions in funding, leading to an overall forecast budget deficit. The recent announcement by the Government on moving to a new Target Operating Model for imports to the UK (both EU and non-EU) means that the creation of the new Border Control Post has left the authority with a £7.8m infrastructure cost but also a challenge in having a high specification building with no clear purpose and no way of recovering running costs.

However, the council's financial health is currently considered sound, and well placed to face future uncertainties, including the review of local government funding.

Portsmouth City Council remains a low taxing authority. The council currently receives significantly less in council tax than the average unitary authority within its statistical neighbour group.

Council tax currently represents less than half of the council's overall funding base with annual rises limited by "referendum thresholds" which are set by the government annually. Over recent years, council tax increases have not been sufficient to keep pace with the levels of inflation and other cost pressures experienced by the council.

In Portsmouth, we are rising to the challenge. The council's medium term financial strategy has been developed to respond to these very challenging circumstances. The strategy has a strong regeneration and value for money focus, with a presumption also that capital investment will be targeted towards cost savings, income generation and economic growth.

Social Value

The Council recently approved a Social Value policy, that means in all our work, including contracting and procurement of services, we will be considering the lasting and positive impact that we create through the way in which we act to shape a resilient future, for our local and regional communities, businesses and environment.

The policy focuses on three key areas of impact:

- **Social:** Improving the physical and mental wellbeing of local people, strengthening community spirit and collaboration to reduce poverty and social isolation, supporting young people, disadvantaged groups and address inequality, by raising aspirations of our future generations.
- **Economic:** Improving opportunities for our local SMEs, greater inclusion of the VSCE and social enterprise sectors within our supply chains, driving down unemployment, upskilling the future workforce and addressing skills gaps through apprenticeships and similar schemes. Driving up inward investment and harnessing the Green Revolution to 'build back better'.
- **Sustainability:** working towards our 2030 Carbon Net Zero goal, improving our air quality, and enhancing our biodiversity through net gains. Evaluating our approach to placemaking and taking care of our heritage as a 'Port City.' Ensuring that communities and businesses are educated and empowered about the vital roles they play in delivering a sustainable future, one which builds back greener

We have considered how social value impacts every element of our activity, including how we use our property portfolio as well, and how we approach work with the local VCS. So for example, our social value policy underpinned a decision to let a unit in a council-owned building to a local community group rather than seek a commercial rent, mindful of the wider value that could be generated for the local community.

In February, the city delivered a "Making Social Value work for Portsmouth" event, engaging contractors and beneficiary groups in promoting the work completed by the council and our aspirations for ways of working to best benefit the residents and city.

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 was an enormous test of the capacity of the organisation. Many officers were required to work under extreme pressure, and in different circumstances. Others were required to move into different roles to supplement business critical activity. There will be an ongoing challenge for the organisation to ensure that the wellbeing of staff is managed, and that the longer term 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. Directorates and project teams all maintain their own risk logs, and the most 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) are logged as

part of the strategic risk register and considered by the organisational Director team. 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

In usual circumstances, 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. The pandemic situation meant that this process has not been followed in the usual way for 2020/21 but this began to be reestablished for 2021/22.

Budget holder and Portfolio Holder reports are produced and circulated monthly and Cabinet receive a consolidated report of the overall general Fund Position for Quarters 1, 2 & 3. Governance Audit and Standards Committee receives extensive information relating to outturn performance. Reports include recommendations relating to any corrective management/member action required.

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 Council maintains a three year future financial forecast and ensures financial sustainability by ensuring all required savings plans will enable a balanced budget to be set within a three year time horizon whilst ensuring the General Fund Balance will not fall below its minimum level. The Councils constitution requires that all Portfolio, Cabinet & Council decisions be fully funded before they are able to be approved into policy. This ensures that decisions made now are sustainable in the medium to long term. Financial policies are shaped to encourage responsible financial management.

During the budget setting process a comprehensive review of the 3 year financial forecast is undertaken including an exercise to identify the financial risks facing the Council over the medium term. Having considered the magnitude and likelihood of these risks an appropriate level of contingency is provided for within the overall council budget. An example of this review in action is that historically the annual contingency was circa £10m with a core contingency level of circa £4m. As a consequence of the COVID pandemic the overall contingency has been increased to circa £26m in 2021/22 reducing to core contingency of circa £6m by 2024/25

In addition an annual review of the minimum level of un-earmarked reserves is undertaken based on potential financial risks facing the council. The resulting MTFS is designed to ensure that savings plans are phased to ensure that the level of un-earmarked reserves does not fall below this minimum balance.

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.

The Chartered Institute of Public Finance and Accountancy ("CIPFA") has published a new Financial Management Code for authorities to adhere to. The CIPFA Financial Management Code 2019 (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities, based on broad principles. It does not prescribe the financial management processes that local authorities should adopt but requires each authority to demonstrate that its processes satisfy the principles of good financial management. The council has undertaken a rapid review against the new FM Code in order to identify any areas for development. The conclusion of the review was that the council broadly operates within the expected principles, and that there are some adjustments that can be made in future to formalise some processes.

The Council complies with the Prudential Code for Capital Finance in Local Authorities with the Full Council approved the latest capital strategy in February 2022.

Value for money

PCC received an unqualified VFM conclusion from its external auditors on 21st January 2022 and considerable assurance with regard to VFM can be drawn from this, GAS Committee meets regularly where it receives and considers reports relating to organisational wide service performance, a corporate plan is maintained, Finance, Procurement & Contract Procedure rules are maintained and enforced to ensure robust operating procedures are in place.

The Council pursues VFM by operating a number of external contracts, PFI's and shared service arrangements in order to improve the value for money achieved during service provision. This approach has been maintained whilst continuing consideration of where social value can be derived, and in ensuring that full consideration is given to the most appropriate delivery of services. The Council maintains an effective internal audit service resourced to provide a comprehensive audit programme that is reviewed regularly by G&A&S Committee.

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 undertook thorough preparation for the introduction of the General Data Protection Regulation, including enhanced training for all staff, and is now working to these requirements.

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 community, 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 is made public in timely and accessible fashion.

Effective scrutiny

The Council operates five Scrutiny Panels, 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.
- 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 2021/22 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 strategic risk register.
 - Corporate complaints and any complaints regarding Members.
 - Freedom of information requests.
 - Data protection and information governance issues.
 - Employee and resident survey results
 - The LGA Corporate Peer Challenge.
 - Local Partnerships review of company governance.

LGA Corporate Peer Challenge

In October 2021 a Local Government Association Corporate Peer Challenge was undertaken - an exercise where a team of local authority experts look at how we work as an organisation.

The peer challenge team found that Portsmouth is a good council, that is performing well and doing some innovative work particularly in housing, social care, and finance. The peer challenge team saw evidence of good performance across many key services, as demonstrated by recent Ofsted Inspections and key performance data. However, some significant challenges remain in terms of the Local Plan and housing delivery. Overall, the review team recognised that the Council is in a good financial position, but felt that the Council should continue to closely monitor the risks from commercial investments, particularly given the complications of Covid-19 and the potential short and medium-term impacts this could have.

The full report can be found at <https://www.portsmouth.gov.uk/wp-content/uploads/2022/03/LGA-Corporate-Peer-Challenge-Final-Report-2021.pdf>

The report outlines eight areas for improvement, highlighting that we need to:

1: create more time and space for collective reflection between members and directors

2: create more opportunities for Directors, Heads of Service and wider staff to come together to understand, discuss, collaborate, and contribute to future Council agendas.

3: collectively grip the issue of the Local Plan, housing supply targets and housing delivery – or risk losing control of its destiny in terms of planning powers. It will need strong cross-party working to do this.

4: undertake an Independent Review of the internal governance, constitutional and scrutiny arrangements, to ensure closer member-officer working relationships.

5: start a dialogue with members on the approach to training and development

6: develop a strong corporate approach to the equalities, diversity, and inclusion agenda

7: review key strategies and plans in the light of Brexit, the pandemic and other external changes, balancing short and long-term issues e.g., city centre.

8: find the most impactful approach to health and care integration changes that ensures the best outcomes for the people of Portsmouth

As action plan has been prepared in response to these recommendations and progress against this will be regularly reported in 2022/23.

Ongoing impact of the pandemic

It is important to note that in 2021/22, impacts of the pandemic and recovery continue to be felt. These include:

Changed ways of working - A significant priority for the corporate services teams in the authority in 2021/22 has been driving the Connectivity Programme, that brings together the elements that are supporting the organisation as it moves on from and adapts to the learning from the pandemic. Connectivity is about ensuring we are a flexible and collaborative council that puts customers at the heart of everything we do, and where everyone is valued.

Connectivity was actually initiated before the pandemic, and was originally developed to support the organisation on its journey to becoming a modern digital council. Since then, the world around us has changed and the programme has reshaped to incorporate our response to changes in the way we work that have happened as a result of the pandemic, as well as our longer-term aspirations.

We are becoming a modern digital council and establishing new ways of working. Through this we have an opportunity to create a better way of working for everyone, and are redefining how and where we work.

The programme scope is to deliver on long term objectives about where we work and how we work. We want:

- **Accommodation that is the right size**, in the right place and is flexible enough to respond to changing needs
- **An attractive place to work**, that enhances staff safety and wellbeing with working culture and practices supporting the delivery of member priorities and the city's vision for Portsmouth
- **Staff in the right locations** and able to dedicate more time to delivering frontline services and to respond to changing customer needs and demands
- **Staff able to work from and manage teams in a variety of settings**— team areas, home, clients' homes – to suit work demands
- **Staff with access to the information and equipment they need** to fulfil their role effectively via efficient information systems, equipment and devices that are secure when required
- **Effective team and partnership working**, facilitated by systems and environments, increasingly including co-location, data sharing and collaboration.

We are aiming to be working as a hybrid organisation by summer 2022.

Financial risks - a critical risk for the coming year will be the long-term impact of the Covid-19 pandemic, which may continue to have an impact on some of the Council's income streams such as port dues and leisure income, and expenditure on some services may continue to be higher than anticipated (for example, in social care). However, the Council managed the position well in 2021/22 and although Covid-19 has put the Council under financial pressure, the Council has adequate reserves to absorb this, and developed 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. There may be pressures arising from any further waves of Covid-19 and we watch the data and modelling closely to be in a strong position to respond. We have carefully managed Contain Outbreak Management Funding through our Health Protection Board to ensure that we have resilience around possible future outbreak management requirements.

As we come out of the pandemic, we will have to recognise the new duties the organisation is likely to be left with - particularly in the area of public health - and the new ways we will have to work to fulfil the needs of residents. We will also have to recognise that many staff have been under huge pressure in the past year, and experienced difficult things, and we need to support them in their wellbeing.

However, we have also taken the opportunity to develop as an organisation. Our more flexible working will support resilience, and we will continue with evidence-based ways of working to guide decision-making on topics in the future. We have emerged with a strong vision for the city, evidence of what we can achieve working in partnership with organisations and community, and a clear set of organisational priorities to ensure we focus on the things that matter most.

Significant governance issues for 2022/23

Portsmouth City Council have completed a number of actions over the last year, that have addressed or alleviated significant governance issues identified in the 2021/22 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	Re-establishing usual processes and controls as the organisation emerges from an emergency response footing and moves to hybrid working.	Risk Management and audit	<ul style="list-style-type: none"> - Ensure necessary training is completed across the organisation - Clear communication about expectations 	Good state of organisational compliance	Corporate Governance Group	Ongoing progress reporting to portfolio holder and committees.
2	IT resilience and adaptability in new cloudbased environment to facilitate flexible working	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.	<p>Capability to restore key IT functions for the authority more quickly than the current 3-5 days.</p> <p>High availability of key applications remotely</p>	Director of Corporate Services	Ongoing development and review
3	Lack of sufficient checks that could be evidenced on a suppliers record when a supplier's bank details are being changed. Testing has highlighted that controls were not evidenced.	2021/22 Accounts Payable Audit critical risk exception.	Additional checks beyond those normally deployed must now be conducted to ensure that bank details are accurate and due care is taken to prevent cases of invoice and mandate fraud.	Follow-up audit identifies improvements to system have been made and fraud risk minimised.	Director of Finance	In advance of follow-up audit.

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
4	<p>The Council lacks a co-ordinated overarching view of its commercial activity whether this be partnering and alternative service delivery models (including with the voluntary, community and social enterprise sector) or through local authority trading companies or other models.</p> <p>Decisions taken may not be fully informed by all relevant considerations (specifically risk, best value and displacement of BAU activity), not subject to regular review and do not enable the sharing of best practice across the authority. Where trading companies are being created, the implications on Council resources needs to be better understood.</p>	Internal and external audit; performance and risk management activity; Local Partnerships report commissioned via Cabinet in 2022.	<p>Establish a centralised, specific officer and member responsibility and oversight for all Council commercial activity.</p> <p>Preparation of a commercial policy/statement which guides all Council commercial activity.</p> <p>Ensure adequate resources in a centralised team which provides corporate support to work up proposals and scrutinise commercial activity proposals. Team to be resourced through existing staff who receive training in commercial issues or through the short term buying in of commercial expertise (e.g. Local Partnerships) to support the build-up of the Council's capacity.</p> <p>Centralised team will support the development and implementation of commercial proposals, together with a periodic review that the delivery mechanism offers best value to PCC and that alternative arrangements could not do this better.</p> <p>This function would organise early engagement to ensure the legal, HR and financial due diligence was undertaken to fully understand the implications of the commercial proposal</p> <p>The team will review existing arrangements to ensure best practice/best value and ensure alternative arrangements could not do this better.</p>	Period review of commercial activity to evaluate the effectiveness of the activity with consideration based on best value considerations and Council's risk appetite.	Chief Executive	Necessary changes reported on a regular basis to Cabinet, Governance, Audit and Standards Committee and Employment Committee.

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
5	Compliance with statutory duties and other external requirements and directives: ongoing changes in the work of 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, emerging adult social care assurance framework, ongoing public health responsibilities, new responsibilities around homelessness and building safety.	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.
6	Budget/ financial position, specifically in respect of demand-led services including Adults and Children's Social Care; and impact of financial uncertainty following the pandemic	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
7	New governance and working processes across strategic partnership	Internal self-assessment	Monitoring of processes, including s75 agreements, through the Joint Commissioning Board	Robust governance across complex partnership agendas	Chief Executive	Ongoing reporting

Ref	Governance issue	Source	Actions to address the issue	Measures of success	Lead/s	Timescale
	arrangements, including working with the integrated care system					
8	Capacity within the organisation and key individuals,	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
9	Significant changes around the adult social care agenda, including fair cost of care arrangements, new inspection framework and wider social care reform.	Internal self-assessment; feedback from cost of care exercise	Regular monitoring of progress through ASC project group	Successful achievement of changes	Director of Adult Social Care	Ongoing reporting
Page 39	Address the recommendations in the Corporate Peer Challenge particularly in relation to the requirement to look at arrangements to ensure closer member-officer working relationships.	LGA Corporate Peer Challenge Report	Regular monitoring of action plan 6 month review by LGA Peer Team	Progress on identified issues	Chief Executive	6 month review due Summer 2022' ongoing review

Effectiveness of the system of internal control

During 2021-22 Internal Audit & Counter Fraud completed 39 full audits, 23 grant reviews, 14 first follow ups and 6 second follow ups. The results show that the level of 'No Assurance' audited areas have stayed the same as last year. There has been a slight decrease of 'Limited and Reasonable' rated areas and an increase in 'Assurance' areas overall against the 2021/22 plan. As a whole 'Reasonable Assurance' has been attributed indicating that the governance framework is effective despite ongoing and significant pressures on the Authority. The historic annual opinion for numerous years has been Limited. A review of the results across the authority shows that there are no individual directorates that attribute to the majority of high-risk areas, although there are pockets of weakness that require improvement. The results across audit work performed this year have not identified any systemic failings. One critical exception has been raised and is detailed in this report, this relates to growing concerns and attempts of fraud, perpetrated by external parties.

Over the past several years a residual issue has been highlighted in the number of outstanding actions for implementation. This year there has been continued progress as 51% of risks exceptions have been closed. This is also reflected in that 65% of follow up audits achieved improvement for the opinion level, with only 35% remaining the same, due to insufficient movement to deliver actions. Although progress is noted, it is recognised that Covid 19 has had an impact on services for 2021/22 where due to circumstances outside of their control some actions were difficult or impractical to address. This position needs to continue to improve if the Authority is to strive to manage risk exposure more effectively and retain the overall assurance opinion. Corporate Governance Board and individual directorates will be updated on a quarterly basis with all open risk exposures.

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. Reasonable Assurance is provided for 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 2021/22 may affect that year's work for External Audit. It may also inform their work for 2022/23 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 2022/23

Clearly, a very significant number of risks and governance exposures for the organisation arose from the immediate response to the Covid-19 pandemic, but we are now in a different phase where we are recovering and adapting to living and working with Covid, and the risks and exposures we have identified reflect this context.

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 and other relevant bodies regularly over the next year.

Signed on behalf of Portsmouth City Council

Page 41
Cllr Gerald Vernon-Jackson CBE, Leader of the Council Date

David Williams, Chief Executive

Date

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Title of meeting:	Governance and Audit and Standards Committee
Date of meeting:	Governance and Audit and Standards Committee 08 March 2023
Subject:	Statement of Accounts 2021-2022
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 2021/22.

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 2021/22 Statement of Accounts after 08 March should this be required following comments by the Auditor.

3. Background

Under the Accounts and Audit Regulations 2015, the Director of Finance and Resources 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 2021/22.

From 01 August 2022 to 09 September 2022 any person was able to inspect the accounts of the Council for the year ended 31 March 2022 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts and other documents relating to those records). From 01 August 2022 to 09 September 2022, 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 2021/22.

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 31 March and of the Authority's income and expenditure for 2021/22. 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 2021/22 includes an overview of the City Council's performance on pages 15 to 26 and a commentary on the financial statements on pages 26 to 39.

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 30 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 2021/22 Statement of Accounts after 23 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.

7. Director of Finance & 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 & 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 Briefing 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

APPENDIX**Non-Trivial Adjustments Made to the Accounts Since Publication of the Statement of Accounts Report 2021-2022 on 14th June**Property Valuation errors

There were three errors identified by the City Council at the start of the audit which impacted the value of property assets held by the City Council. Two of these were due to wrong figures being used at year end (+£0.577m and +£2.1m), and one was due to a late change in the value of the HRA Council House stock by external valuers (+£2.284m). There is no impact on the overall General Fund or HRA balance.

	Original Figures	Revised Figures	Amendment
	£000	£000	£000
<u>Movement in Reserves Statement</u>			
Usable Reserves - Surplus on provision of services - GF	(23,303)	(23,115)	118
Usable Reserves - Surplus on provision of services - HRA	(18,964)	(21,248)	(2,284)
Usable Reserves - Adjustments between accounting basis & funding basis under regulations - GF	53,797	53,609	(188)
Usable Reserves - Adjustments between accounting basis & funding basis under regulations - HRA	17,741	20,025	2,284
Unusable Reserves - Other	(206,637)	(209,502)	(2,865)

Comprehensive Income			
Unusable Reserves - Adjustments between accounting basis & funding basis under regulations	(77,190)	(79,286)	(2,096)
Total Unusable Reserves	(783,523)	(788,484)	(4,961)
Total Reserves	(1,123,250)	(1,128,211)	(4,961)

	Original Figures	Revised Figures	Amendment
	£000	£000	£000
<u>Comprehensive Income & Expenditure Statement</u>			
Portfolio Net Expenditure	216,743	216,931	188
Non Portfolio - HRA Net Expenditure	(15,485)	(17,769)	(2,284)
Net Cost of Services	209,279	207,183	(2,096)
Surplus on Provision of Services	(42,267)	(44,363)	(2,096)
Surplus on Revaluation of Property, Plant & Equipment	(62,366)	(65,231)	(2,865)
Other Comprehensive Income	(206,638)	(209,503)	(2,865)
Total Comprehensive Income and Expenditure	(248,905)	(253,866)	(4,961)

<u>Balance Sheet</u>			
Property, Plant & Equipment (Note 12)	1,713,194	1,716,055	2,861
Heritage Assets (Note 15)	97,480	99,580	2,100
Long Term Assets	2,112,025	2,116,986	4,961
Net Assets	1,123,250	1,128,211	4,961
Revaluation Reserve (Note 25)	(269,857)	(272,722)	(2,865)
Capital Adjustment Account (Note 25)	(914,293)	(916,389)	(2,096)
Unusable Reserves	(783,523)	(788,484)	(4,961)
Total Reserves	(1,123,250)	(1,128,211)	(4,961)

	Original Figures	Revised Figures	Amendment
	£000	£000	£000
<u>Cash Flow Statement</u>			
Net Surplus on the Provision of Services	42,267	44,363	(2,096)
Adjustment for Non Cash Movements (Note 26)	126,356	124,260	(2,096)

	Original Figures	Revised Figures	Amendment
	£000	£000	£000
<u>Housing Revenue Account</u>			
Depreciation (and Impairments) of Non-Current Assets - Dwellings	(896)	(3,180)	(2,284)
Total Expenditure	70,002	67,718	(2,284)
Net Cost of HRA Services	(15,485)	(17,769)	(2,284)
Surplus for the year on HRA Services	(18,963)	(21,247)	(2,284)

	Original Figures	Revised Figures	Amendment
	£000	£000	£000
<u>Movement on the HRA Statement</u>			
Surplus on the HRA Income & Expenditure Account	(18,963)	(21,247)	(2,284)
Adjustments between accounting basis & funding basis under regulations	17,455	19,739	2,284

These errors also impact the associated disclosure notes including Note 7, 8, 9, 12, 13, 15, 25, 26, H1 and H4.

Provision Error

The Covid-19 additional relief fund representing un-spent monies was incorrectly all classified as long-term provisions despite it all being due in 2022-23.

	Original Figures £	Revised Figures £	Amendment £
Long Term Provisions	(11,026)	(8,535)	2,491
Short Term Provisions	(3,571)	(6,062)	(2,491)

This only impacts the balance sheet and associated disclosure note, with no impact on the overall General Fund or HRA balance.

Note 30 Officer Remuneration

The number of employees analysed in amounts paid over £50,000pa contained figures inconsistent with underlying workings.

	Original Figures	Revised Figures	Amendment
Band 60,000 to 64,999	47	46	-1
Band 65,000 to 69,999	29	1	30

Note 30 Exit Packages

One of the exit package bands contained an understated pension strain figure

	Original Figures £	Revised Figures £	Amendment £
Exit package cost band 0 - 20,000	36,434	36,599	165

There was also one exit package which was under dispute at the year end so had not been agreed and the value of this was not known at the time so was not included.

While 1 exit package was included in the value for band £60-80k it was omitted in the number of exit packages.

	Original Figures	Revised Figures	Amendment
Exit package - number of agreed departures £60,001 - £80,000	1	2	1

Note 34 Related Parties

Payments to companies in which members have an interest was understated due to a casting error and payments to Portsmouth College were omitted in error.

The amount received from the Hampshire Police & Crime Commissioner (HPCC) was understated.

	Original Figures £	Revised Figures £	Amendment £
Members section - Amounts paid to companies in which Members had an interest	11,680,424	12,731,588	1,051,164
Amounts received from Hampshire Police and Crime Commissioner	1,747,158	(20,714)	1,726,444

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Portsmouth
CITY COUNCIL

Draft Statement of Accounts 2021/22

Chris Ward

Director of Finance & Resources (Section 151 Officer)

Councillor Leo Madden

Chair of the Governance and Audit and Standards Committee

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Narrative Statement - Financial Year Ended 31st March 2022

The purpose of this narrative statement is to provide context to the Statutory Financial Statements for Portsmouth City Council for the period from 1 April 2021 to 31 March 2022.

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.

Our context - the city council and how it works

Portsmouth City Council provides the full range of local government services including:

- education and youth services
- social services
- highways
- waste management
- leisure
- libraries
- planning and economic regeneration
- public and environmental health
- trading standards

We also own and run the largest municipal port in the UK.

The City Council has fourteen wards, each served by three councillors. We operate a decision-making system of a leader and cabinet.

In 2021-22 the cabinet consisted of the leader of the City 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 City Council activities and these are currently:

- Leader
- Children, Families and Education
- Communities and Central Services
- Environment and Community Safety
- Culture, Leisure and Economic Development
- Health, Wellbeing and Social Care
- Housing and Preventing Homelessness
- Planning Policy and City Development
- Traffic and Transportation

Roles, responsibilities, and the way that we undertake the business of the City Council are set out in the constitution of the authority.

The City Council is managed by the chief executive, David Williams, who is the head of the paid service. The chief executive is supported by directors who have oversight of services, each of whom deals with a broad portfolio of the functions of the City Council. The current director team is:

- Director of Children Services and Education (and statutory Director of Children's Services)
- Director of Public Health (statutory post)
- Director of Adult Services (and statutory Director of Adult Social Services)
- Director of Finance and Resources (and statutory s151 officer)
- Director of Culture, Leisure and Regulatory Services
- Director of Regeneration
- Director of Housing, Neighbourhoods and Building Services
- Director of Corporate Services
- Portsmouth International Port Director.

The monitoring officer is the city solicitor.

Our Context - demographic

Portsmouth is the most densely populated area in the UK outside London, with an estimated population of 214,900 residing within 15.5 square miles.

Portsmouth ranks inside the top 20% of the most deprived local authorities in England, with 15% of the city's population experiencing income deprivation. The Charles Dickens ward is the most deprived ward in the city across all the various domains. 22% of all children (aged 0-19) in the city are living in poverty¹ (which is above the England average) and in some areas of the city (for example the Charles Dickens ward) the rate is twice the national average. The percentage of children in the city known to be eligible for, and claiming free school meals, is higher than the national average, which reflects the low incomes in the city.

The city is becoming more ethnically diverse. 16% of the City's overall population are not of white British ethnicity - this rises to 20% of school-age children. 87.8% of the city's population was born in the UK.

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%).

¹ A child is defined as growing up in poverty if they live in a household with an income 60% below the UK average income for a particular year.

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. The number of residents claiming out-of-work benefits is higher than the national average, and 1.6% higher than the south-east region's average. While an estimated 4.9% of the city's 16-18 year-olds are not in education, employment, or training (NEET), this rate is reducing however it is still higher than both the England average and the south-east regional average. Adults in Portsmouth have lower than average levels of skills and qualifications, and approximately 6.9% of the Portsmouth population having no qualifications (NVQ1 equivalent). We also know that local resident earnings are significantly lower than local workplace salaries, suggesting that many of the higher paid jobs are filled by people commuting into the city.

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 on/off Portsea Island - although congestion levels compare well with other cities. Traffic and associated emissions are a significant challenge to air quality in certain areas of the city.

Our context - our partners

The city has excellent partnership working with other local authorities and with colleagues in health, including the Clinical Commissioning Group (CCG), Solent NHS Trust, Portsmouth Hospitals University Trust, the police, probation, fire service, University of Portsmouth and with business - through Shaping Portsmouth.

For many years, the City Council had three key theme-based strategic partnerships - the Health and Wellbeing Board, Children's Trust, and the Safer Portsmouth Partnership. Following a review, these partnerships were amalgamated into a single Health and Wellbeing Board - with a broadened remit and membership. This has improved efficiency and ensures 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 Enterprise Partnership (LEP), Solent Transport, and the Partnership for South Hampshire. In addition, Portsmouth City Council and Gosport Borough Council have come together to form the 'Portsmouth Harbour Partnership' to bid in the central government's One Public Estate programme (collaborative working on land and property initiatives to create new jobs, homes and joined up public services). 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.

Strong partnerships with colleagues in the health sector have developed over time, including the strengthening of links with the CCG under the 'Health and Care Portsmouth' umbrella, moving to a model for shared functions across adult services, children's services, and public health. This is important to ensure that services for Portsmouth's population are commissioned and delivered with a strong understanding of local communities and their needs, and to support the development of a new integrated care system for Hampshire and the Isle of Wight.

Our context - finances

These continue to be challenging times for local government. At a time of unprecedented pressure on public finances, and a series of national lockdowns due to the Covid-19 pandemic, the City Council has shown great flexibility in the way that it has adapted to changing needs, delivery of services and ways of working.

The biggest share of the money that the local authority receives comes from government grant. Since 2011/12, overall central government funding to Portsmouth City Council has reduced significantly. Taken together with other financial pressures (mainly relating to inflation, Covid-19 recovery, the effects of an ageing population on care services and the increased requirements for safeguarding of vulnerable children) - significant savings have been made by the City Council.

Adult and children's social care (representing more than 50% of the City Council's controllable spend) provide services to the most vulnerable in society. These services do though experience high-cost pressures and have historically received significant protection from savings. The City Council's medium-term financial strategy seeks to maximise savings through income generation, economic regeneration, and efficiency measures.

Over the past 11 years, the City Council has been required to make £104m in savings and efficiencies to achieve a balanced budget and ensure that spending remains in line with income and funding levels. This represents 48% of all controllable spending. To deliver this magnitude of savings, the City Council has followed a medium-term financial strategy (for both revenue and capital spend) focusing on:

- regeneration, innovation, and creativity leading to stimulation of the funding base (council tax and business rates) and
- income generation with the aim of making savings and avoiding cuts to services.

The overall aim of these actions is to try to ensure "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.

In February 2022, the full council considered proposals outlining its budget and council tax 2022/23. The key proposals recommended a budget for 2022/23 that provides for:

- cost savings of £1.825m
- new spending initiatives of £0.825m (including a full city wide roll out of the food waste recycling service)
- a council tax increase of 2.99% (1.0% of which is specifically for adult social care)
- new Capital Investment to the City of £67.8m
- no requirement for any budget savings for 2023/24.

The Covid-19 pandemic has had a significant impact on the budget proposals in both the revised budget for the last financial year, the budget for 2022/23 and future years' forecasts. Some of the financial impacts of the pandemic are expected to be short term in nature (one to two years) but others are expected to endure through the longer term. Excluding business rate reliefs which are fully recompensed by government, the cost of responding to the Covid-19 pandemic in the last financial year amounted to £8.7m.

The budget proposals seek to ensure that the financial position of both adult and children's social care remains robust both in the short and medium term. Additional funding is provided as follows:

- Children's social care - £3.9m to cover financial pressures relating to residential placements, care leavers, unaccompanied asylum seekers, inflation and to remove unachievable budget savings
- Adult social care - £3.3m to cover the uplift in the national living wage of 6.6% that will be passported to care providers as well as all other inflationary pressures.

Over the next three years (commencing 2022/23), the additional costs of managing Covid-19 and income losses are expected to amount to a further £6.6m but with no specific additional government funding. The Government has provided new funding within the provisional local government settlement of £3.3m for 2022/23 in the form of a 'services grant 2022/23'. This is to cover Covid-19 risks, all new burdens arising from Government initiatives and all other budget pressures. The cost of managing Covid-19 alone dwarfs the new funding by government. While it is not possible to quantify the longer-term impacts of Covid precisely, it is anticipated that there will be ongoing impacts on care services, some sources of income, and both council tax and business rates receipts.

The financial picture over the next two years and beyond is one of increasing costs and demand for services, particularly in essential care services; a long with continued reductions in funding, leading to an overall forecast budget deficit.

However, the City Council's financial health is sound, and remains well placed to face the future uncertainty of COVID-19 and the review of local government funding.

Recent public consultation undertaken showed that:

- 78% of respondents support an increase in council tax as opposed to cuts in services
- The more popular response was to support an additional 3% council tax increase specifically to support Adult Social Care services
- the top three most important service areas for residents at present are (in order of popularity):
 1. collecting bins and keeping the City clean
 2. ensuring older people and vulnerable adults lead independent lives
 3. supporting education

Portsmouth City Council remains a low taxing authority. The City Council currently receives significantly less in council tax than the average unitary authority within its statistical neighbour group.

Council tax currently represents less than half of the City Council's overall funding base with annual rises limited by "referendum thresholds" which are set by the government annually. Over recent years, council tax increases have not been sufficient to keep pace with the levels of inflation and other cost pressures experienced by the City Council.

In Portsmouth, we are rising to the challenge. The City Council's medium term financial strategy has been developed to respond to these very challenging circumstances. The strategy has a strong regeneration and value for money focus, with a presumption that capital investment will be targeted towards cost savings, income generation and economic growth.

The Vision for Portsmouth

In 2019 and 2020, we embarked on an exercise with partners, 'Imagine Portsmouth', to create a shared vision for the city. We worked with 2,500 people representing business and organisations who live and work in Portsmouth to talk about our aspirations for our city. Bold plans were created for what we want in the future; for ourselves, our families, our communities, our businesses, and our co-workers.

People described the values they wanted to see lived in the city as:

'We believe in:

- equality
- innovation
- collaboration
- respect
- community'.

'By 2040, we want to see a:

- happy and healthy city
- city rich in culture and creativity
- city with a thriving economy
- city of lifelong learning
- green city
- city with easy travel'.

This vision belongs to the city, not just the City Council. However, we will be an important part of turning the vision into a reality, through a clear set of priorities for the organisation to help achieve the vision as well as to guide the recovery and renewal of the city from the recent pandemic:

- Improve health and care for our local communities
- Support people to live active, healthy lives
- Prioritise mental health
- Make more good quality homes available for our residents
- Build aspirations and encourage ambition for our city and its residents
- Support young people
- Encourage everyone to learn and develop skills
- Create opportunities for employment
- Encourage clean growth and culture-led regeneration
- Support the local economy to recover from the pandemic
- Take positive action to tackle climate change
- Enable greener, healthier, and better-connected journeys

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

A happy and healthy city

We are doing everything we can to enhance the wellbeing of everyone in our city; through offering the education, care and support that every individual needs for their physical and mental health. We aim to ensure that all our residents and communities feel safe, feel like they belong and can thrive.

Our response to the pandemic has helped us to build an even greater understanding of need in our communities and provided insight into how we can best provide support to help people achieve safe, resilient, and healthier lifestyles. As we move out of the response phase of the pandemic and start to get back to a more normal way of life, we will continue to:

- support people experiencing homelessness, including those rough sleeping.
 - To increase housing provision for those sleeping rough in the city, the City Council has acquired and refurbished three properties. Homeless day services have been relocated into the 'Hub' on Kingsway. The Hub provides access to vital medical services, mental health workers and substance misuse professionals alongside practical support like hot food, shower facilities and a 'care of' address so people can receive post more easily
- work closely with the NHS and other partners to offer joined-up services that ensure our residents achieve good health outcomes
- support the city's wider care sector to ensure sustainable, high-quality care for the most vulnerable
- ensure our most vulnerable children and adults are supported and protected

As set out in our corporate plan for recovery and renewal, in 2021/22 we have prioritised:

- investing in adult social care services with a particular focus on providing additional home care support to elderly residents so that they can stay in their own homes
- starting a building programme of 150 council houses for local families, and piloting Passivhaus principles (tried and tested solutions for delivering net zero ready buildings) for new council housing developments to ensure homes are as environmentally sustainable as possible
- buying back former council flats/houses to house local families in need
 - 157 properties were purchased in 2021/22 and a further 77 properties are in the pipeline
- progressing the demolition of Leamington House and Horatia House and working with local residents on a plan for replacements which include at least 272 affordable homes
- creating school streets and more play streets in Portsmouth
- increasing the number of mobile CCTV cameras
- progressing an anti-poverty plan, so that fewer families live in poverty

- becoming an Accredited Living Wage employer.
 - All City Council staff, and people working on contracts with the City Council, are currently paid the Real Living Wage. This will be extended to all those working in private firms and the voluntary sector as these contracts come up for renewal

A city rich in culture and creativity

As set out in our corporate plan for recovery and renewal, we continue to put culture at the heart of the city's cultural-led regeneration. In 2021/22, we have:

- purchased the New Theatre Royal to ensure it remains as a community asset for future generations
- continued work on the sea defences in Southsea, and seeking additional investment to make the seafront the jewel in Portsmouth's outside space
- supported 'Portsmouth Creates' to ensure our cultural and creative community thrives. This enabled exciting and innovative projects like the We Shine festival to be delivered
- kept our libraries open as important focal points for local communities
- developing a scheme to provide new all-weather pitches and changing pavilion at Cosham's King George V playing fields

In the future, we see culture and leisure as critical to the regeneration of the city and to support the health of the population.

- The Pyramids Centre has been redeveloped to make the most of the opportunity it provides for all ages to get active, with the aged and expensive pool space repurposed as a play centre, and a high-quality gym provided on site.
- The City Council is working with Sport England to build a sport and leisure centre in Bransbury Park to replace aged facilities in Wimbledon Park and Eastney swimming pool.
- In another exciting partnership, work is underway with the Football Foundation to bring forward new all-weather pitches and improved pavilion space at the city's King George V Playing Fields. This scheme has achieved planning consent and should be operational by the end of 2022.

A city with a thriving economy

In 2021/22, in line with our corporate plan for recovery and renewal, we have:

- developed plans for investing over £7m in the commercial centres at Commercial Road and Fratton Road to support the evolution of our high streets
- continued to work closely with 'Shaping Portsmouth' and other partners to nurture local small businesses and help them to grow and thrive

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 across the city.

The government's flagship policy white paper 'Levelling Up the UK' was published at the beginning of February 2022. It has the potential to have wide ranging impacts on the City Council's relationship with central government and the way we will implement our plans for the city, and values the importance of pride in place, which is a strength in Portsmouth.

In 2021, the City Council was successful in securing £20m of Levelling Up Fund for a programme to transform the visitor economy in the north of the city.

- This included the development of a new £11.25m passenger terminal for Portsmouth International Port, which is necessary to manage the anticipated increase in passengers through the port.
- The programme also included the development of the Hilsea Linear Park concept, which will provide high quality recreation in the north of the city and provide green travel options.

In 2022/23, further bids will be submitted for transport projects in the city, focused on the southern end of Portsmouth.

The authority continues the process of developing a new local plan, which will set the framework for development in the city up until 2036. Consultation on this process is underway. The full timeline for the process is contained in the local development scheme. The expectation is that the new local plan will be adopted in 2024. There are challenges in achieving the levels of new housing the government require, whilst balancing other needs in the city, such as provision of employment land and protecting the natural environment. Key sites where we anticipate housing development to be generated include Tipner, the city centre and Cosham.

One of the key economic drivers for the city is the City Council owned and operated Portsmouth International Port (PIP). Throughout 2021, PIP freight continued to support critical routes carrying fresh fruit and medical supplies. Freight levels are almost returning to normal levels. PIP has developed a masterplan for the future of the port over 20 years which will feed into the local planning process. This recognises the opportunity for PIP to grow business in the cruise sector, linking with the wider visitor economy aspirations of the city. More cruise ship calls to the city will lead to more demand for hotel rooms and increased spend in the local economy.

A city of lifelong learning

Education is the foundation stone to give our children and young people the best chances in life. We must make educational opportunities the best they can be and give our children the best chances in life - ultimately reducing the need for our services. We want to raise education standards so that our children and young people achieve their full potential.

What we knew before the pandemic was that despite children getting off to a relatively good start in their education, young people in Portsmouth were leaving school aged 16 without achieving results at the same level as their peers in much of the country. This is something we know needs to improve.

In Portsmouth, there are 50 primary schools, 10 secondary schools and four special schools (including one multi-site provision). There are additionally two further education colleges, one maintained nursery school and the University Technical College (UTC). The UTC is a school specialising in electrical and mechanical engineering and advanced manufacturing for young people aged 14-19 interested in pursuing a technical career.

To improve attainment and coordinate opportunities for children and young people across the city, the Portsmouth Education Partnership (PEP) brings together multi academy trusts, schools, colleges, early years settings, higher education institutions, the local authority, teaching schools, the regional schools commissioner, Portsmouth Dioceses and Education Business Partnership South. The PEP was launched six years ago 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 was a strong basis for setting up working structures in the pandemic, with groups focusing on prevention of infection and digital learning. Schools and academies stayed open throughout lockdowns for vulnerable children and children of keyworkers, and relationships between schools and families became even stronger. Similarly, social workers continued to visit families throughout the pandemic, where necessary, to ensure that children continued to be safeguarded.

Throughout 2021/22, schools have continued to experience disruption to learning as staff and students have contended with illness and self-isolation. All the city's schools have risen to the challenge brilliantly, but it has been an undeniably tough year, and we are yet to see how the two years of significant disruption play out into outcomes achieved relative to other areas. We will get our first indications of this when results are published from this year's summer assessments and examinations.

In the meantime, we have continued to drive support for children with a special educational need or disability, by investing in the building of classrooms for children with additional needs and working with partners including in the NHS to develop different pathways of support for neurodiverse children.

As set out in the City Council's corporate plan, recovery and renewal from the pandemic has been prioritised and includes:

- investing an extra £3.5m in the building of classrooms for children with special educational needs
- continuing to invest in ensuring our school buildings are properly maintained
- ensuring that there is a strong model of mental health support for young people in the city
- continuing to provide placements for young people under the Government's Kickstart programme (providing funding to create new jobs for 16 to 24 year-olds who are on Universal Credit)
- investing in future-proofing vital IT to support local schools
- developing a partnership which aims to ensure that every child, young person, and adult in the city has access to a digital device to aid learning and drive cutting edge digital learning across all schools

A green city

As set out in our corporate plan, we prioritised:

- doubling the number of homes that receive food waste recycling services in the city and plan to make the scheme citywide as soon as possible - a food waste trial has been rolled out to help address the difficult issue of waste in the city. Instead of being incinerated, the collected food waste is recycled and turned into energy, fuel, and fertiliser. Over 40% of household waste is food, this could offset hundreds of tonnes of CO₂e. To further reduce carbon emissions and air pollution the City Council has pledged to make all waste collection lorries electric by 2023

- Progressing plans for an anaerobic digester to accept food waste from Portsmouth and other councils
- Working with key partners across the city to help Portsmouth become carbon neutral by 2030, in response to the declaration of a carbon emergency in 2019
- Installing more solar panels on City Council buildings, and offering funded green energy audits to residents so that they can reduce their carbon footprint
- Producing a local plan which recognises government requirements, but does not sacrifice jobs for housing and which respects the importance of the natural environment
- Continuing to oppose the Aquind application - this was rejected by the Secretary of State in January 2022
- Investing £200,000 in green projects across the city

The declaration last year of the climate emergency has been an important driver for the City Council, and has resulted in the significant steps being taken to support carbon reduction objectives, including:

- installing thousands of solar panels on council-owned buildings and schools, including the recent installation of a 250 kilo-watt solar system on the Hilsea Industrial estate. These have already offset hundreds of tonnes of CO₂e
- continuing to support residents to save energy (and money) through the 'Switched On Portsmouth' website and offers
- driving forward plans for environmental improvements at the Port, including providing shore power for visiting ships to improve the city's air quality

Projects aimed at tackling climate change are not only looking at reducing emissions, but also sequestering them through plants and greenery. The density of the city means that green space is limited. Since declaring the climate emergency, the Greening Portsmouth Strategy was approved and progressed by the City Council. The strategy aims to support the planting of thousands of trees across Portsmouth and is supported by funding in the capital budget.

A city with easy travel

Many of the measures that support carbon reduction in the city also support wider objectives around health and wellbeing and economic development. The city's local transport plan 2020-2036 states that Portsmouth should have a people centred travel network that prioritises walking, cycling and public transport to help deliver a safer, healthier, and more prosperous city. The plan (which constitutes the city's transport strategy) is complemented by annual implementation plans which drive activity.

To transform public transport the aim is to work with partners to deliver a new South-East Hampshire Rapid Transit network and dedicate more road space to it, along with improving local bus networks. By working with bus, coach, rail and ferry operators, improvements to services across the city can be delivered. Building on the 'Solent Go' (travel card) work, the city aims to provide higher frequency services and continue to simplify fares. Improved interchanges at stops and stations alongside local "mobility hubs" will help integrate public transport with 'first or last mile' transport such as cycling, cycle hire and e-scooters to deliver a seamless travel experience.

Like many cities across the country Portsmouth is facing the serious problem of air quality. In November 2021, a clean air zone was implemented in the south-west of the city. While the zone is aimed at tackling air pollution it has the added benefit of reducing carbon emissions. The port has a significant role in addressing this challenge too and have submitted their own air quality strategy to the Department for Transport and have commenced a range of other initiatives as part of an ambitious net zero strategy.

Ensuring the City Council is living the values embedded in the city vision.

Our shared aim is to make Portsmouth a place that is fairer for everyone; a city where the City Council works together with thriving communities to put people at the heart of everything we do. In 2021/22, we have prioritised:

- using the City Council's new social value policy to strengthen the 'Portsmouth Pound' and ensure that the City Council spends its money within the city
- strengthening the processes around the provision of services so we can make informed choices about whether to deliver services in-house or via contract

The past year has seen a great deal of change for the organisation. We continue to implement and scale up new technology to ensure that staff can work flexibly, while at the same time deliver the services the city needs. The City Council's social value policy states that we will consider the lasting and positive impact of our actions to shape a resilient future, for our local and regional communities, businesses, and environment.

As we come out of the pandemic, the support that we provide to businesses in the city, and to the city workforce, will be vital. Our skills and labour market strategy is being implemented and will be critical to addressing employment issues as we move on from the pandemic to ensure everyone is able to access employment.

We always have an extensive and challenging agenda, particularly because need and demand continue to rise as resources reduce - and assessing the consequences of the impact of the pandemic will take time to fully understand. Throughout, we will need to ensure we address the negative impacts of the challenges affecting the most vulnerable in society, whilst at the same time capitalising on opportunities to deliver economic expansion and job creation.

Performance

The impact of the pandemic has meant that the business of the City Council has continued to look different in 2021/22. There has been continued and regular updates on corporate issues of significance through the structures put in place to lead the local emergency response. We have resumed more regular reporting of performance, notably through the Governance, Audit and Standards committee.

In October 2021, a Local Government Association Corporate Peer Challenge was undertaken - an exercise where a team of local authority experts look at how we work as an organisation. The peer challenge team found that Portsmouth is a good council, that is performing well and doing some innovative work particularly in housing, social care, and finance. The peer challenge team saw evidence of good performance across many key services, as demonstrated by recent Ofsted Inspections and key performance data. However, some significant challenges remain in terms of the Local Plan and housing delivery. Overall, the City Council is in a good financial position, but should continue to closely monitor

the risks from commercial investments, particularly given the complications of Covid-19 and the potential short and medium-term impacts this could have.

The full report of the Corporate Peer Challenge can be found at <https://www.portsmouth.gov.uk/wp-content/uploads/2022/03/LGA-Corporate-Peer-Challenge-Final-Report-2021.pdf>

The report outlines eight areas for improvement, highlighting that we need to:

1. Create more time and space for collective reflection between members and directors
2. Create more opportunities for Directors, Heads of Service and wider staff to come together to understand, discuss, collaborate, and contribute to future City Council agendas.
3. Collectively grip the issue of the Local Plan, housing supply targets and housing delivery – or risk losing control of its planning powers. Strong cross-party working will be needed to do this.
4. Undertake an Independent Review of the internal governance, constitutional and scrutiny arrangements, to ensure closer member-officer working relationships.
5. Start a dialogue with members on the approach to training and development
6. Develop a strong corporate approach to the equalities, diversity, and inclusion agenda
7. Review key strategies and plans in the light of Brexit, the pandemic and other external changes, balancing short and long-term issues e.g., city centre.
8. Find the most impactful approach to health and care integration changes that ensures the best outcomes for the people of Portsmouth

An action plan has been prepared in response to these recommendations and progress against this will be regularly reported on during 2022/23.

Key issues relating to organisational performance in 2021/22 are:

Adult Social Care Services

The impact of the pandemic on care settings continued during the last financial year, and it has been acknowledged nationally that social care is under increasing pressures for a variety of reasons. These pressures arise from both; increasing demand, and the quality of the social care system being critical to ensuring that health services remain viable in the medium to long term. Ensuring that the wider care sector in the city remained sustainable in the post-covid landscape will be a key priority for the City Council in 2022/23, but we have strong relationships with providers in the city which puts us in a good position to work together.

Over the last year the City Council has been working as part of Health and Care Portsmouth, collaborating with the Solent NHS Trust and the Clinical Commissioning Group, to agree a 'senior responsible officer' for discharge from hospital. They will lead a multi-agency team and contribute to a significant reduction in people who are medically fit for discharge and the number of days that Portsmouth residents wait in hospital prior to discharge. In addition, the Victory Reablement Unit is supporting citizens waiting for domiciliary care, reducing length of stay in acute care in hospital and avoiding temporary placement into care home capacity.

Two centres have been opened in the city to manage and provide care:

- The Southsea Discharge 2 Assess Unit at Harry Sotnick House provides interim care for people prior to entering a care home longer term
- A second centre provides an independent living environment for people with mental health challenges - enabling personalised care support and a pathway to independent living.

Furthermore, the Patey Court 'topping out' and naming ceremony took place. Patey Court is due to open in 2022, and will accommodate 28 adults with learning disabilities, with five four-bed flats offering 24/7 support and eight single flats with 'visiting support' (more information can be found at <http://labmonline.co.uk/>).

The Adult Social Care Strategy has been launched to guide the work of the service for the next three years, and we have recruited two permanent heads of service for adult social care and support and quality and performance - giving some capacity to work on service transformation and preparation for inspection. The team has also appointed a transition manager to work with young people who need care and support as they become adults. A successful bid for funding has also enabled the team to embed a social worker within the rough sleeping team.

Over the last year however, we have seen a reduction in the availability of domiciliary care, which is impacting on people being able to return home from hospital. Additionally, there is considerable pressure across several areas of the adult social care team due to rising demand and lack of capacity, particularly in the duty, safeguarding and contracts teams.

Pressures across the NHS, both Covid and non-Covid related, have had an impact on the number of patients being discharged from hospital, which drives some of the adult social care demand and could have an adverse financial impact on the City Council's budget. More generally, there continues to be pressure with insufficient capacity in areas of the service to meet demand for assessment, care and support planning. The social care funding reform agenda announced by government contains no funding for the current and pre-pandemic pressures in social care, and the market is likely to remain unstable and there is also potential for some care providers to exit. Social care funding reform will be challenging to deliver with the implementation of two significant changes occurring within the next 18 months relating to how people pay for care, and how local authorities pay for care. This will stretch capacity in the social care workforce and is likely to be disruptive to care providers and people who pay for their own care.

The Health and Care Bill, currently progressing through parliament, confirms that plans will be brought forward for the inspection of adult social care provision in local authorities. The last time a national inspection regime was enforced was more than 10 years ago, and the resources that would have supported inspection are no longer in place.

Looking ahead, achieving social care funding reform is a priority during 2022/23 and 2023/24, as is establishing and implementing workforce and accommodation strategies and establishing evidence collecting mechanisms for adult social care inspection.

In addition, we will be aiming to focus on an adult social care savings programme to achieve financial balance in 2022/23, implementing a contracts and commissioning strategy, and retendering exercises. Effective data reporting mechanisms for a refreshed adult social care outcomes framework will help with this.

Children, Families and Education

During 2021, support continued to be provided to schools throughout the pandemic and the City Council oversaw the merger of Highbury and Portsmouth colleges to establish the City of Portsmouth College. The new college gives students of all ages even greater flexibility with their programmes and provides access to dedicated subject facilities at the different campus locations. The joint organisation expands a uniquely flexible curriculum offer within the city of Portsmouth, including A Levels, T Levels, vocational diplomas, apprenticeships, and higher education qualifications.

The team has developed and rolled out a Link Co-ordinator Scheme to maintain safeguarding eyes on over 4200 children. The education link coordinators provide an operational, supportive link between schools and the local authority and health services, ensuring that schools and other education settings are aware of their vulnerable children and the key professional networks working with those families.

2021/22 has seen the launch of the relational practice programme in schools to improve school attendance and reduce exclusions, with 18 settings signed up in wave one. Separately, the team is also meeting its targets within the Supporting Families Programme. Supporting Families provides targeted interventions for families with complex interconnected problems including unemployment, poor school attendance, mental and physical health problems, involvement in crime and antisocial behaviour, domestic abuse and children in need of help and protection.

The Holiday Activity and Food Programme (HAF) was successfully launched in 2021 and continues to be delivered. The programme is funded by the Department for Education and enables the City Council to offer free holiday provision, including healthy food and enriching activities for children aged 5-16 who are eligible for benefits related free school meals.

We are pleased that over the past year, 92% of schools are now rated by Ofsted as good or outstanding. In all ten inspections in 21/22, schools have retained their good/outstanding rating.

The team is seeing significant increase in demand on children's social care and early help services - and an impasse in the children's placement market amid a shortage of suitable placements. This has resulted in a lack of provision for looked after children and significantly increased costs of placements.

A challenge for the team has been the implementation of the Special Educational Needs and Disabilities (SEND)/Alternative Provision Accommodation Plan with the impact of rising construction costs. Alternative Provision offers places that provide education for children who, because of exclusion, illness, or other reasons, would not otherwise receive suitable education.

Looking ahead, the team will shortly be launching its new multidisciplinary neurodiversity service. Parents and practitioners have often felt frustrated by the complex system of support, assessment, and intervention. It brings together experts from a range of fields to provide universal and targeted information, advice, and guidance.

Public Health

The work of public health in response to the Covid-19 pandemic that began in the previous financial year, continued into 2021. Over the year, the primary focus was ensuring that the city had high quality data analysis to inform local decision-making, which then enabled the public to be kept fully informed. The provision of timely, accurate and informative Covid-19 data and intelligence to members, our communities, our partners, and council officers supported an effective response and improved health and care for our local communities. Working with colleagues in public health and the NHS, we led the work for the Hampshire and Isle of Wight integrated care system to model Covid-19 demand - helping local health and care services to understand potential trajectories for the pandemic in a context of rapidly emerging variants and an evolving policy response.

The Portsmouth Covid-19 Health Protection Board (HPB) provided leadership by bringing together senior professionals from agencies across Portsmouth's health and care system alongside other partners like the university. The board took a data and intelligence led approach, with actions and discussions stemming from close monitoring and shared understanding of local cases, and hospitalisation and death rates (amongst other relevant data sources). The HPB led the ongoing development and operational implementation of the 'Local Outbreak Control Plan', working with the relevant local resilience forum to make recommendations on effective outbreak management.

In line with the Local Outbreak Control Plan, the public health team led delivery of community contact tracing and asymptomatic community testing. The team led on the provision of effective support for individuals needing to self-isolate, through working with colleagues in wider council directorates and the Portsmouth HIVE.

Throughout the pandemic, a public health advice rota (or service) provided timely responses to a range of enquiries from across the city. This ensured that national guidance was interpreted correctly and supported critical services to function with Covid-19 secure measures. In addition, the public health team provided a crucial source of public messaging locally (on testing, tracing, self-isolation, non-pharmaceutical interventions, and vaccination) and where clear messaging to local residents was considered a critical part of the response. Understanding motivational factors and barriers to engaging with prevention measures informed the approach which has been worked up and led by communications colleagues.

The significant impact of the Covid-19 pandemic aside, we know that there are major inequalities in health and wellbeing outcomes across the city, particularly between genders (shorter male life expectancy) and between different areas of the city. Our local public health team took these factors into account, with support for testing given to communities that we know need it most (for example, workers in early years settings or staff and residents in homelessness accommodation). It also targeted work on vaccination - including outreach to the homeless population who might not otherwise access healthcare.

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, although over the last year much of the work of the services has had to be delivered differently because of the Covid pandemic. Some scheduled public events had to be cancelled. In some cases, the team were able to operate successfully through virtual models of service delivery. However, the implications have been significant in terms of opportunities for residents, the impact on the local economy and revenue for the authority.

Our museums service received funding from five partners enabling the curation of the Silver City Exhibition - 500 years of Portsmouth's History'. The exhibition showcases the collection for the city and includes a part time digital engagement officer and resident play practitioner to make the collection engaging and accessible for all communities.

The parks service successfully bid for funding from the National Heritage Lottery Fund for reviving Victoria Park - the 'People's Park' project - and have now been awarded delivery phase grant funding of £2.3 million.

The events service developed a full plan for the platinum jubilee celebrations which includes activities to bring people together, from across the communities in the city, in outdoor settings - including the provision of street parties and neighbourhood grants. The service is supporting street party applications (111 confirmed applications), which shows considerable appetite in the city for the Jubilee celebration as a community event.

The organisation successfully mobilised to respond to the need for new services and facilities in the light of the UK's withdrawal from the European Union, responding to the requirement to create a Port Health Authority and deliver a Port Health Border Control post. Despite this strong organisational response, there are now uncertainties about how this will be taken forward in line with the Government's new approach, and there are likely to be some financial implications.

Covid peaks have caused some difficulties in terms of a temporary decline in staffing levels for some areas of the directorate. Pest control services have had to temporarily postpone some services due to Covid staff absences, and activity in other regulatory activity has been reduced to manage competing priorities. However, this is now stabilising as activity returns to a more recognisable pattern.

The work of the directorate will be critical to the recovery of the city, and as well as getting back on track with core services, such as libraries and museums, we will also be looking to move on with significant strategic developments, including investment in the sports and leisure facilities for the city and working on a heritage framework.

Housing, Neighbourhood and Building Services

Global turbulence in 2021/22 has had implications for the city, but we have been proud to provide support to those in need. In support of the government's Afghan Relocation and Assistance Policy, nine Ministry of Defence (MoD) properties have been leased for housing and discussions continue to expand the scheme in Portsmouth for the leasing of a further nine properties.

Various building design projects have been initiated, including the refurbishment of a former NHS facility at Oakdene House to support the living accommodation for adults with mental health issues, and a brand-new play area and skate park for children of all ages and abilities was constructed on a former recreational ground in Hobby Close, Wecock Farm.

The council's 'Buy Back' scheme remains active with 157 properties purchased in 2021/22 and a further 77 properties in the pipeline. With right to buy levels reduced, this has created a net gain in the number of social housing units. In addition, a successful funding bid made for housing development of brownfield land has secured longer-term provision for circa 600 council homes.

The deconstruction and development of Horatia and Leamington House began in the spring of 2021. This follows council agreement of options to redevelop the site to create more affordable and social housing. Deconstruction of the blocks is on track - with Horatia House to be fully deconstructed by the spring 2022 and Leamington House in autumn 2022. The design and development work is progressing well and a planning submission is expected in October 2022. Community engagement work has received national recognition at the Public Sector Transformation awards 2022 and the project is a finalist for the Local Government Chronicle Awards 2022 in the 'Community Involvement' category.

Our domestic energy services team continued to develop services for residents in Portsmouth within the 'Switched On' Portsmouth brand. A new home energy support service was launched in spring 2021 to provide a framework to build on the measures households can take to improve energy efficiency. The services include 'Switched on Solar', 'Switched on Homes' and the extension of the 'Warmer Homes' project.

Through the City Councils 'Green and Clean' scheme, extraordinary numbers of plants and flowers are set to be planted throughout the local authority housing areas. During the year, there will have been more than 2,800m² of new wildflower areas laid, mostly in Buckland, along with 11,200 whips to improve the city's hedgerows, 27 orchard trees in Paulsgrove and Buckland, 362 other trees, and 8,300 assorted shrubs - 1,000 of these at the new Doyle Avenue development in Hilsea and 4,700 for the Buckland environmental improvement plan.

Looking ahead to the 2022/23 financial year, housing and neighbourhood services will be consulting on a revised homelessness strategy that will look at merging the existing strategy with the council's work on preventing rough sleeping in the city. Additionally, the City Council will be consulting on options for additional licensing for homes in multiple occupation and will be implementing the changes arising from the Social Housing White paper - in particular, the potential changes to the provision of housing management services and the introduction of additional fire safety and building safety responsibilities.

We will be looking into expanding Ian Gibson Court (which provides housing with care support) into the local community and engaging with residents in Paulsgrove on the future use of the Paulsgrove community centre and library.

The housing, neighbourhoods and building services team will be reviewing the asset management strategy with a view to updating it for the council's housing stock - including plans for its decarbonisation.

Regeneration

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

The year has not been easy for many businesses and commercial areas in the city, and the Directorate has been focusing on supporting these through our helplines and issuing over £40m of grant funding. Despite our best efforts, we have seen shops and other high street services closing, and how we respond to the changes in the environment and regenerate the city in the new context will be critical to the city's recovery.

The service has worked hard to ensure that Portsmouth has been a safe city throughout 2020/21. The Transport service has continued to run the vital services that mean vulnerable children with special educational needs can get to school. The service has also stepped in to make changes to roads in the city to ensure that there have been safe spaces to walk and cycle.

Wider strategic infrastructure work to develop the city has also continued with council securing further funding totalling £250m from the Environment Agency to protect and regenerate the City. Despite the challenges of the year, we have delivered £15m worth of sea defences in the North of the island with improved walking and cycling opportunities in these areas. We have started work on the enormous £120m Southsea Coastal defence scheme, with the 2nd phase around Southsea Castle just getting underway, whilst the first phase is due to be handed back to residents in September this year.

On the Transport side we have secured funding through a range of sources to deliver improvements in local transport. This includes £4m Future Transport Zone funding and £101 million for the South East Hampshire Rapid Transport Programme and improved walking and cycling connections and £48m for our Bus Service Improvement Plan which will see a raft of ticketing, route and timing changes along with a full fleet of electric buses being delivered into the city later this year. The service has won the e-mobility progress TRANStech award for vehicle charge points and secured a high-profile business as a tenant at Lakeside.

There will be challenges in the future though. The pandemic has created a lack of trust in public transport and a reduction in its usage, which will take time to build back and will have an impact on our efforts to reduce road traffic. We will need to continue thinking through the future of our high street areas as trends in shopping and usage of public space change. We also need to continue to support businesses to locate in Portsmouth and helping them grow to ensure that there are lots of opportunities for local residents.

Within property and investment, the portfolios have performed well during the pandemic with a very limited turnover of tenants in both our national and local property portfolios, as a direct result of our hands on proactive approach. The Strategic Development team has also performed well with planning submissions ready to go for the City Centre North development, consisting of circa 2,000 new homes and a new green lung for the city, supporting the HRA to deliver its affordable housing programme and Ravelin Housing, the Councils wholly owned development company to deliver on its business plan for 1,000 new homes over the next 10 years.

Planning development management has been through a full systems-thinking review in the last 6 months and is now rebuilding the service model to reduce the backlog and improve determination times to ensure we can deliver a planning service that the city can be proud of. Work is underway to produce the current local plan which will set out the planning needs and aspirations for the city.

Corporate Services

A significant priority for the City Council's corporate services teams during 2021/22 has been driving the Connectivity Programme, that brings together the elements that are supporting the organisation as it moves on from and adapts to the learning from the pandemic. Connectivity is about ensuring we are a flexible and collaborative council that puts customers at the heart of everything we do, and where everyone is valued.

The Connectivity Programme was initiated prior to pandemic, having originally been developed to support the organisation on its journey to become a modern digital council. Since then, the world has changed and the programme has been reshaped to incorporate our response to changes in the way we work that have arisen due to the pandemic, as well as the City Council's longer-term aspirations.

We are becoming a modern digital council and establishing new ways of working. Through this we have an opportunity to create a better way of working for everyone and are redefining how and where we work.

The programme scope is to deliver on long term objectives about where and how we work. We want:

- **Accommodation that is the right size**, in the right place and is flexible enough to respond to changing needs
- **An attractive place to work**, that enhances staff safety and wellbeing with working culture and practices supporting the delivery of member priorities and the city's vision for Portsmouth
- **Staff in the right locations** and able to dedicate more time to delivering frontline services and to respond to changing customer needs and demands
- **Staff able to work from and manage teams in a variety of settings**– team areas, home, clients' homes – to suit work demands
- **Staff with access to the information and equipment they need** to fulfil their role effectively via efficient information systems, equipment and devices that are secure when required
- **Effective team and partnership working**, facilitated by systems and environments, increasingly including co-location, data sharing and collaboration.

We are aiming to be working as a hybrid organisation by summer 2022.

We have also been driving through a social value policy for the organisation. In 2021, we took a fresh look at how we use the Portsmouth Pound, seeking to create lasting and positive impact through the way in which we act to shape a resilient future for our local and regional communities, businesses and environment. We are committed to looking at all our activity through this social value lens, with the local people who live and work in Portsmouth being central to the impact we were seeking to achieve.

To guide the work, we developed a policy that focused on three key areas of impact:

- **Social:** Improving the physical and mental wellbeing of local people, strengthening community spirit and collaboration to reduce poverty and social isolation, supporting young people and disadvantaged groups, and address inequality, by raising aspirations of our future generations.
- **Economic:** Improving opportunities for our local businesses, greater inclusion of the Voluntary Community and Social Enterprise (VSCE) and social enterprise sectors within our supply chains, driving down unemployment, upskilling the future workforce and addressing skills gaps through apprenticeships and similar schemes. Driving up inward investment and harnessing the Green Revolution to 'build back better'.
- **Sustainability:** working towards our 2030 Carbon Net Zero goal, improving our air quality, and enhancing our biodiversity. Evaluating our approach to placemaking and taking care of our heritage as a 'Port City.' Ensuring that communities and businesses are educated and empowered about the vital roles they play in delivering a sustainable future, one which builds back greener.

In developing the new approach, we were careful to take a strengths-based approach, working from the assets we already had. We recognised that social value was already being achieved within Portsmouth without any significant direct intervention by the council through local socially minded business partners, existing social enterprises and the work of key partners. This particularly showed itself in the immediate period of the pandemic response, where we saw incredible examples of businesses supporting the community. We however recognise that in some areas, the value of this activity was not being fully measured, therefore we had hidden value which we wanted to uncover, measure, and celebrate. We also recognised that by taking a more systematic approach, we could drive more value for our communities, to improve outcomes for everyone in the city, particularly the vulnerable or disadvantaged.

The policy was developed and approved in the shadow of the Covid-19 pandemic which has had huge impact in our community. Social value is a critical and unifying enabler to the recovery and renewal of the city after the events of the last two years. The pandemic has both created and highlighted needs that already existed throughout the city, with some people having seen their work, homes, relationships, education, and health fundamentally changed. At the same time, the pandemic highlighted the desire and capacity of organisations and individuals to reach out to provide support wherever they could to those in need.

"Working together for a common goal" is a social value policy we are embedding into the way we work. Creating real and lasting improvement in the fabric of the city and the lives of its residents is a goal of the City Council and its partner organisations, including contractors.

The Cabinet approved the policy in March 2021, and implementation has led to the development of a toolkit, balancing the adoption of recognised best practice whilst focusing upon local needs & priorities, to produce an emerging unique Portsmouth model

We have considered how social value impacts every element of our activity, including how we use our property portfolio, and how we approach work with the local Voluntary & Community Service (VCS). For example, our social value policy underpinned a decision to let a unit in a council-owned building to a local community group rather than seek a commercial rent, mindful of the wider value that could be generated for the local community.

In February, the city delivered a "Making Social Value work for Portsmouth" event, engaging contractors and beneficiary groups in promoting the work completed by the City Council and setting out our aspirations for ways of working to best benefit the residents and city.

Portsmouth International Port

In early 2022, Portsmouth International Port (PIP) unveiled its 20-year masterplan which the City Council unanimously approved. The masterplan sets out the medium and long-term plans to develop, expand and bring more investment into the city. PIP is a major contributor towards both the local and national economy delivering £189 million to the Portsmouth City Council area and supporting 2,420 local jobs (figures as at 2017/18). PIP also supports indirect jobs and businesses in the shipping supply chain and therefore has a far-reaching influence, contributing an estimated £390 million to the wider UK economy and supporting a further 5,590 jobs nationwide. The plan is important as the 'Solent Freeport' stands poised to become the leading trading hub in the south of England. Significantly, the plans also include an aim to be a 'net zero emissions' port. The installation of solar energy units and battery storage at the port that will account for more than 75% of its landside energy consumption by the end of 2022.

The end of the EU (Brexit) transition period and changes to border checks continue to be a challenge, but the port is meeting each deadline with minimal disruption. However, a major financial challenge over the construction of the associated new border control post, which will be operational from July 2022, will leave a shortfall of £7.8 million to Portsmouth City Council due to insufficient grant funding from central government.

PIP's key workers have successfully continued to serve critical freight routes in to and out of the country over the past financial year, despite the disruption caused because of the Covid-19 pandemic - maintaining supply chains of 'just in time' fresh produce and medical supplies.

The PIP is experiencing a significant increase in cruise numbers with over 100 calls in 2021 against a previous high of 44 during 2013. PIP expects continuous growth moving forward.

Virgin Voyages - a new player in the world cruise market, sailed from PIP for its first ever revenue generating cruises during 2021, with the arrival of the newest ship in its fleet 'Scarlet Lady'. PIP's collaboration with Virgin Voyages looks set to continue over future years. Additionally, SAGA travel has committed all its south coast cruise calls to Portsmouth to 2023.

Looking ahead, the PIP recently secured £11.25m from the UK Levelling UP Fund to its international terminal transformation - which is necessary to manage the anticipated increase in passengers through the port, which looks to exceed over 200 cruise calls across the next three years. The port's ability to manage an additional 250,000 passengers a year, above its current two million, relies on creating

additional capacity. The transformation will be cutting-edge in environmental development, complementing the current sustainably built terminal building. The development of the passenger terminal extension should be complete by June 2023.

The changes that have been made, and the planning that has continued to take place throughout the disruptive year, means that the port is well placed for the recovery phase. An area of work that will be particularly important in this phase is capitalising on the government drive to create ten freeports in the country, and this will be a significant piece of work in the coming year.

Conclusions

Overall, the picture of performance in the City Council is broadly positive.

The business of a local authority is diverse, but we know what needs to happen 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 are numerous key risks for us as we move into 2022/23. These include rising costs, driven by supply chain issues and inflationary pressures which create challenges on the revenue budget and for new developments. These pressures are also showing themselves in the cost of living crisis, which will put residents under pressure and may lead to increased demand for services and support.

There is also an increasing dependency on key staff, and capacity of those staff to deliver increasingly complex briefs is a key risk to the organisation. However, 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 believe we are in a good position to focus on our priorities and achieve our goal of ensuring that Portsmouth fulfils its potential, as highlighted by the successful findings of the Local Government Association (LGA) peer review of the City Council in 2021.

Financial Statements 2021/22 - Commentary

The City Council has applied a preparer's materiality limit of £7m in compiling the financial statements except where qualitative factors justify a lower materiality being applied. The City Council has generally not included disclosure notes for items of less than £7m except for the related parties and other company's disclosures.

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 the 31st March 2022. 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.

The Council has two wholly owned subsidiary companies, Portico Shipping Limited and Ravelin Group Limited. Portico Shipping Limited provides stevedoring and ships' services. Ravelin Group aims to develop housing. Group accounts have not been prepared because these companies are not large enough to result in a set of group accounts being materially different from the Council's single entity accounts. Further details of the Council's relationship with these companies is provided in Note 35 to the Statement of Accounts.

Changes to Accounting Policies in 2021/22

Depreciation was calculated on a componentised basis on all assets with a net book value more than £3.0m in 2020/21 and prior years. Depreciation was calculated separately for components making up more than 20% of the asset's cost where components have different lives. Although this provided a more accurate depreciation value, its impact was not material.

From 2021/22 onwards, depreciation will only be calculated on a componentised basis for waste disposal assets and Council dwellings in the Housing Revenue Account (HRA). Waste disposal assets will continue to be depreciated over the constitute components as this service is jointly procured across Portsmouth, Southampton and Hampshire with the depreciation information being provided by a third party for all three councils. Council dwellings in the HRA will continue to be depreciated over the constitute components due to the material size of the asset.

Expenditure and Funding Analysis 2021/22

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 & Education	39,555	44,545	4,990	12.6
Communities & Central Services	24,314	24,778	464	1.9
Community Safety & Environment	15,155	15,324	169	1.1
Culture, Leisure & City Regeneration	6,830	8,449	1,619	23.7
Health, Wellbeing & Social Care	50,245	50,045	(200)	(0.4)
Housing and Preventing Homelessness	3,837	4,561	724	18.9
Leader	(24,557)	(24,460)	97	(0.4)
Licensing	(210)	(140)	70	(33.3)
Planning Policy & City Development	1,149	1,397	248	21.6
Port	(8,566)	(3,564)	5,002	(58.4)
Traffic & Transportation	15,204	15,627	423	2.8
Portfolio Net Expenditure Charged to General Fund Balances	122,956	136,562	13,606	11.1
Non-portfolio - Housing Revenue Account (HRA)		(6,651)		
Non-portfolio - Other		66,751		
Net Cost of Services Charged to General Fund & HRA Balances		196,662		
Other Operating Income		(2,196)		
Financing & Investment Income & Expenditure		23,816		
Taxation & Non-specific Grant Income		(189,001)		
Deficit on Provision of Services Charged to General Fund & HRA Balances		29,281		
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		(104,961)		
Pension adjustments, ie. the extent to which the actuarial cost of providing pensions exceeds employers contributions to the pension fund		44,651		
Other differences including timing difference on Business rates		(13,334)		
Surplus on Provision of Services on an IFRS basis		(44,363)		

Overall portfolios overspent the revised cash limit by £13.6m. The most significant variances over £1m and 10% occurred in the Children, Families and Education; Culture, Leisure & Economic Development; and the Port. These variances are explained below.

Children, Families and Education - £5.0m or 12.6% above the revised budget

The maintained schools drew £0.6m from their balances. Schools are allowed to do this under devolved powers.

Therefore, the true overspend by the Children, Families and Education Portfolio is £4.4m. £2.0m of this overspend was due to additional costs and lost income because of Covid-19. The remainder of the overspend is largely due to increased costs relating to looked after children including a small number of very high-cost care leavers, unaccompanied asylum-seeking child placements where income from the Home Office is inadequate to meet these costs, and high residential placement costs.

Culture, Leisure & Economic Development - £1.6m or 23.7% overspent

This is mainly due to a reduction in income from the contract with BH Live. This is mostly down to leisure facilities being closed or operating a reduced capacity because of the Covid-19 pandemic.

Port - £5.0m or 58.4% overspent

The Port's income has been much reduced due to there being far fewer sailings from the Port than was budgeted for because of Covid-19.

Financing & Investment Income and Expenditure

This consists of interest payable & similar charges of £26.8m and interest & investment income of £3.0m.

Taxation & Non-Specific Grant Income

This consists of income from Council Tax of £87.9m, non-ring-fenced government grants of £47.0m and retained non-domestic rates of £54.1m.

The CIES records the City Council's income and expenditure on an IFRS basis. To facilitate this, several adjustments are required. These adjustments relate to net comprehensive expenditure which decreases the City Council's net worth, but neither 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 decrease net comprehensive expenditure, include capital grants unapplied of £63.6m and direct revenue financing of capital expenditure of £34.2m. In addition, the net comprehensive expenditure is increased by £44.7m of pension adjustments. These are in respect of changes in the actuarial assumptions used to value the pension fund assets and liabilities. Net comprehensive expenditure is also decreased by other timing differences, including business rates of £15.8m.

Movement in Reserves Statement (MIRS)

The MIRS shown on page 43 summarises how the City Council's reserves have moved over the last two years. General Balances including the General Fund, Earmarked General Fund Reserves, Housing Revenue Account (HRA) and HRA Capital Reserve decreased by £29.2m in 2021/22 (£54.3m in 2020/21). 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 2020	(27.1)	(178.8)	(20.1)	(0.4)	(226.4)
(Increase) / Decrease in 2020/21	(1.3)	(49.7)	(3.3)	-	(54.3)
Balance at 31 March 2021	(28.4)	(228.5)	(23.4)	(0.4)	(280.7)
(Increase) / Decrease in 2021/22	2.5	27.9	(1.2)	-	29.2
Balance at 31 March 2022	(25.9)	(200.6)	(24.6)	(0.4)	(251.5)

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 £25.9m (£28.4m in 2020/21)

The City Council’s main General Fund Balance decreased in the year by £2.5m, of which £2.0m was a planned reduction, 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 2022	(5.0)	(23.4)	(28.4)
Contribution (to) / from Reserves	0.5	2.0	2.5
Balance carried forward as at 31st March 2022	(4.5)	(21.4)	(25.9)

Note: Brackets represent surpluses

After taking account of the deficit (or transfer from balances) of £0.5m for schools, the rest of the City Council's General Fund balances decreased by £2.0m to £21.4m.

The City Council's Revised Budget for 2021/22 (excluding schools) estimated that the General Fund balance would decrease to £21.4m. The City Council's actual General Fund balance only decreased to £21.5m, a £0.1m improvement against 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 £24.6m (£23.4m in 2020/21)

This statutory reserve 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 £201.0m (£228.9m in 2020/21). The more significant earmarked reserves are described below.

Earmarked for Capital Purposes – Balance £50.2m (£45.4m in 2020/21)

This reserve is maintained as a source of funding for the Capital Programme. When the City Council set its budget in February 2022, it resolved that any underspending for 2021/22 arising at the year-end outside of those made by Portfolios be transferred to capital resources to provide funding for known and potential future commitments in future years. Due to this, the reserve increased in the year by £4.7m 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 £20.3m (£18.5m in 2020/21)

This reserve was created 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. There was a net contribution to the Reserve of £1.7m in 2021/22. The current balance of £20.3m is largely committed to funding schemes previously approved by the City Council or future anticipated redundancy costs.

City Deal Reserves - Balance £20.9m (£24.9m in 2020/21)

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 decreased by £4.0m in 2021/22 as funds were applied to finance the regeneration of Tipner.

Highways Maintenance Reserve £10.1m (£9.3m in 2020/21)

This reserve is to fund the ongoing maintenance costs of improvements to the highways network.

Investment Reserve £0.0m (£17.4m in 2020/21)

This reserve consisted of capital funds set aside for re-investment.

Portfolio Reserves - Balance £4.9m (£8.3m in 2020/21)

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

Covid-19 Reserve - Balance £24.8m (£43.0m in 2020/21)

This is a new reserve to hold funds that will be required to cover additional expenditure resulting from the Covid-19 pandemic.

Other Reserves

Major Repairs Reserve - Balance £22.8m (£25.7m in 2020/21)

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 £23.4m in 2021/22. £26.3 was applied to fund HRA capital expenditure causing the balance on this reserve to decrease by £2.9m.

Capital Receipts Reserve - Balance £17.7m (£18.4m in 2020/21)

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 decreased by £0.7m in 2021/22 as the amounts applied to finance capital expenditure or repay debt exceeded the amount received as usable capital receipts.

Capital Grants Unapplied - Balance £47.8m (£49.8m in 2020/21)

This reserve holds grants that may only be applied to fund capital expenditure. This reserve decreased by £2.0m in 2021/22 as the amount of capital grants applied to finance capital expenditure exceeded the amount capital grants received in the year.

Capital Investment

Capital investment in 2021/22 amounted to £227.3m (£162.8m in 2020/21). Capital investment in 2021/22 included capital grants and loans through the Solent Local Enterprise Partnership (LEP) to improve regional infrastructure and investment in the regional economy £25.4m, re-purchasing council houses £23.7m, major repairs to council dwellings £26.3m and coastal flood defences £23.1m.

The City Council has £138.9m available in reserves to fund capital expenditure consisting of the General Fund Earmarked Reserve for Capital Purposes £50.2m, the HRA Capital Reserve £0.4m, the Major Repairs Reserve £22.8m, Capital Grants Unapplied £47.8m and the Capital Receipts Reserve £17.7m.

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

- Coastal flood defences £111m
- Tipner Regeneration £34m
- Major repairs to council dwellings £155m
- Replacement council homes £60m
- Somerstown Redevelopment £108m
- Highways lifecycle replacement costs £28m
- Acquisitions of land for port development £28m

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 £1.0m from £208.3m in 2020/21 to £207.2m in 2021/22. Portfolio net expenditure increased by £20.5m, offset by other non-portfolio expenditure decreasing by £29.4m. The performance of the Housing Revenue Account (HRA) deteriorated by £7.8m from a surplus of £25.6m in 2020/21 to a surplus of £17.8m in 2021/22.

The increase in portfolio net expenditure was mainly due to additional expenditure and lost income through the Covid-19 pandemic.

The decrease in non-portfolio other expenditure is mainly due to a decrease in net expenditure by the Solent Local Enterprise Partnership (LEP). In 2020/21 the Solent LEP provided grants to third parties for capital purposes amounting to £39.5m, of which £7.6m was financed from government grants, i.e., the Solent LEP incurred net expenditure of £31.9m. In 2021/22 the Solent LEP provided grants to third parties for capital purposes amounting to £23.1m, of which £21.2m was financed from government grants, i.e., the Solent LEP incurred net expenditure of £1.9m, i.e., a reduction in net expenditure of £30.0m. Although the Solent LEP's net expenditure has increased the Council's net cost of services on an International Financial Reporting Standard (IFRS) basis, this expenditure was capitalised under statute and therefore did not reduce the General Fund balances.

There are two main reasons for the deterioration in the HRA's performance. £4.0m of the deterioration in the performance of the HRA was due to an increase in expenditure on repairs and maintenance from £19.9m in 2020/21 to £23.9m in 2021/22. This was due to Covid-19 restricting repairs and maintenance activity in 2020/21. £3.1m of the deterioration in the performance of the HRA relates to the downward revaluation of properties used to provide next steps accommodation for homeless people.

Financing and Investment Income and Expenditure

Net expenditure on financing and investment activities has decreased by £14.2m from net expenditure of £15.2m in 2020/21 to net expenditure of £1.0m in 2021/22. This consists of net interest charges of £34.2m (£31.6m in 2021/22), the surplus on trading undertakings and operations of £5.6m (£2.7m in 2020/21) and the surplus from investment properties of £27.6m (£13.7m in 2020/21). The increase in the surplus on investment properties is a result of property revaluations which cannot be realised in cash terms unless the properties are sold.

Taxation and Non-Specific Grant Income

Taxation and Non-Specific Grant Income increased by £0.5m from £252.1m in 2020/21 to £252.6m in 2021/22.

Income from Council Tax increased by £5.4m from £82.5m in 2020/21 to £87.9m in 2021/22.

Income from non-ring-fenced government grants decreased by £10.3m from £57.3m in 2020/21 to £47.0m in 2021/22. This decrease is largely attributable to Government grants relating to Covid-19 in 2020/21 which were not received on the same scale in 2021/22.

Capital grants and contributions increased by £3.8m from £59.8m in 2020/21 to £63.6m in 2021/22.

Retained non-domestic rates increased by £1.6m from £52.5m in 2020/21 to £54.1m in 2021/22.

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 Other Comprehensive Income has improved by £188.7m from £17.9m in 2020/21 to £209.5m in 2021/22.

Revaluation Reserve

On the Balance Sheet, gains amounting to £65.2m arising from the revaluation of non-current assets were posted to the Revaluation Reserve in 2021/22 (£60.9m of revaluation gains were posted to the Revaluation Reserve in 2020/21). 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 to enable the City Council to comply with International Financial Reporting Standards. The fund's actuaries base the City Council's contributions to the pension fund on a full triennial valuation. 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 those returns expected due to 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 the 31st March 2022 was £396.4m, which is significant when compared to the City Council's net worth of £1,124.6m. The estimated net pension liability was £497.4m as at the 31st March 2021 but decreased by £101.0m in 2021/22 to £396.4m. This is due to an increase in the fair value of scheme assets of £61.8m as asset returns over the accounting period have been higher than expected. There was also a decrease in the value of scheme liabilities of £39.2m. This is due to the discount rate used in the valuation being increased by 0.60% and the post-retirement mortality assumptions being changed to allow for the effect of Covid-19.

Other Long-Term Liabilities

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

- Long Term Borrowing - £701.2m (£711.3m in 2021/22). £10.1m of maturing debt was repaid.
- Other Long-Term Liabilities includes service concessions (including Private Finance Initiative schemes) and debt transferred from Hampshire County Council following local government reorganisation - £74.7m (£79.5m in 2020/21).

The City Council's total long-term borrowings are therefore £775.9m (£790.8m in 2020/21). To put this into context, the City Council's long-term assets are valued at £2,113.4m (£1,916.9m in 2020/21).

Long Term Assets

The value of the City Council's long-term assets has increased by £196.5m from £1,916.9m as at the 31st March 2021 to £2,117.0m as at the 31st March 2022. This increase primarily related to property, plant and equipment, which increased by £187.0m largely, reflecting the Council's capital investment and revaluation gains.

Short Term Debtors

The value of short-term debtors has decreased by £15.7m from £99.1m as at the 31st March 2021 to £83.4m at the 31st March 2022. At the 31 March 2021 there was a £16.2m debtor relating to prior payments of non-domestic rates (NDR) due back from the Government. At the 31 March 2021 there was £1.0m debtor relating to prior payments of non-domestic rates (NDR) due back from the Government. The decrease is due to the 2020/21 debtor being exceptionally high due to Covid-19 resulting in a large deficit in the collection fund caused by the expanded retail relief scheme. This year's debtor is back to a more normal level with a much lower collection fund deficit. This decrease has been partly offset by smaller increases in other types of debtors.

Short Term Creditors

The value of short-term creditors increased by £43.4m from £118.4m as at the 31st March 2021 to £161.8m as at the 31st March 2022.

Trade creditors have increased by £18.7m from £16.6m as at the 31st March 2021 to £35.3m as at the 31st March 2022. The single largest reason is that there were £13m of system creditors compared to £nil last year. This arises from the move to Fusion in March 2021 for which system creditors were paid earlier than normal resulting in there being none outstanding at year end.

Government department creditors have increased by £15.1m. This increase primarily relates to unused Covid grants which are now repayable to the Government.

Net Worth

The City Council's overall net worth increased by £253.9m in 2021/22 from £874.3m as at the 31st March 2021 to £1,128.2m as at the 31st March 2022 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 £45.6m (£9.9m in 2020/21) from the Council's operating activities.

There was an outflow of cash of £60.5m from investing activities in 2021/22. In 2020/21 this was an outflow of £11.2m. The higher outflow of cash from investing activities in 2021/22 was the result of an increase in purchases of property, plant and equipment as the restrictions relating to Covid-19 were eased.

There was an inflow of cash of £9.5m from financing activities in 2021/22. In 2020/21 this was an outflow of £11.3m.

In 2021/22 there was an overall decrease in the City Council's cash and cash equivalents of £5.4m from £43.9m as at the 31st March 2021 to £38.5m as at the 31st March 2022.

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 2022, it was anticipated that there would be a £1.5m surplus on Council Tax and a £30.0m deficit on Business Rates, i.e., the fund would have a total deficit of £28.5m. The Budget for 2021/22 was prepared on this basis i.e., that this deficit of £28.5m would be made up during 2022/23. Most of this expected deficit related to two relief schemes that were introduced to the system after the 2021/22 budgets for business rates had been set. The 49% of this loss that is attributable to the Local Authority is reimbursed by Central Government via a grant, which is then used to offset this deficit in 2022/23.

Council Tax

There was an unplanned deficit in the Collection Fund balance relating to Council Tax of £0.3m (i.e., the budgeted surplus of £1.5m less the actual surplus of £1.2m). The worsening on outturn is attributable to a sustained decrease in the in-year collection rate and by extension the level of bad debt ultimately expected to materialise.

The City Council administers Council Tax for Portsmouth, which includes collecting Council Tax on behalf of the City Council, the Police & Crime Commissioner and the Hampshire Fire and Rescue Authority, so any surplus or deficit on the fund is shared with them.

Business Rates

The unplanned surplus relating to Business Rates was £8.6m (i.e., the budgeted deficit of £30.0m less the actual deficit of £21.4m). The improvement on outturn is primarily attributable to a relief scheme expected to begin in 2021/22 not actually commencing until 2022/23. This decrease in deficit is however offset by a corresponding decrease in the level of funding the Council will receive so that it can fund the relief.

This improvement in the Collection Fund will be distributed across the precepting bodies (Government 50%, Portsmouth City Council 49%, and Hampshire Fire and Rescue Authority 1%) in the financial year 2022/23.

The Housing Revenue Account (HRA)

Overall, the HRA made a surplus of £21.2m in 2021/22. This represents a deterioration compared with 2020/21 (£24.1m surplus) of £5.1m.

Whilst the HRA made a £21.2m surplus, the accounting arrangements for local authorities are such that many of the income and charges including upward revaluations 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 the adjustments allowed under statute has reduced the £21.2m surplus to £1.2m. This £1.2m increase in HRA General Balances represents the excess of income over expenditure in 2021/22.

The £1.2m surplus on the HRA after statutory adjustments compares to a forecast deficit of £1.1m. Therefore, the HRA underspent by £2.3m in 2021/22.

Impact of Covid-19

The Covid-19 pandemic has had a significant financial impact on the Council

Covid-19 resulted in additional costs and lost income of £8.7m. These additional cost and lost income mainly affected Children, Families and Education (£2.0m), Culture and City Development (£1.3m), and the Port (£4.4m). At the 31st March the Council had £13.2m of unspent Covid grants which are now repayable to the Government. At the 31st March the Covid-19 Earmarked Reserve had a balance of £24.8m to cover any additional direct or indirect costs arising from the pandemic.

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.

The aftermath of the Covid-19 pandemic has led to changes working patterns, and where people live and work, which could affect the value of properties. However, we are now coming out of the pandemic and there has been an upward revaluation of the City Council's housing stock of £24.3m and an upward revaluation of investment properties of £18.3m in 2021/22.

The aftermath of the Covid-19 pandemic also gives rise to potential volatility in the measurement of pension fund assets and liabilities. However, there has been an increase in the fair value of scheme assets of £61.8m as asset returns over the accounting period have been higher than expected. There was also a decrease in the value of scheme liabilities of £39.2m. This is partly due to the post-retirement mortality assumptions being changed to allow for the effect of Covid-19.

The value of customers' debt more than three months past its due date for payment has fallen by £0.6m to £5.3m at the 31st March 2022. It is unclear whether this trend will continue into 2022/23.

The Council had £397.4m of short-term investments at the 31st March 2022, of which £41.4m were cash and cash equivalents. This should ensure that the Council has sufficient cash to last well into 2022/23. If the Council did run short of cash, it would be able to borrow as its debt at the 31st March 2022 of £795.9m is well within its authorised limit for external debt for 2022/23 of £1,008.6m.

Conclusion

In 2021/22 the City Council's general reserves (excluding schools) decreased by £2.0m to £21.4m. This was in line with the City Council's revised budget which was for a deficit of £2.0m.

The surplus on the Collection Fund in respect of Council Tax of £1.2m is £0.3m less than the anticipated surplus of £1.5m reflected within the budget. The deficit on the Collection Fund in respect of Business Rates of £21.4m is £8.6m less than the anticipated deficit of £30.0m reflected within the budget.

The £1.2m surplus on the HRA after statutory adjustments compares to a forecast deficit of £1.1m. Therefore, the HRA underspent by £2.3m in 2021/22.

The overall improvement in the City Council's financial position, brought about by the Collection Fund, 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 have posed a challenge to the City Council's financial resilience, the City Council remains in a strong financial position.

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 2022.

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 taxpayers how the funding available to the City Council (such as 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 44).

2020/21 (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 & Education	37,219	-	37,219	10,116	47,335
Communities & Central Services	21,256	-	21,256	4,473	25,729
Community Safety & Environment	14,479	-	14,479	1,420	15,899
Culture & City Development	7,961	-	7,961	6,579	14,540
Health, Wellbeing & Social Care	44,606	-	44,606	5,617	50,223
Housing and Preventing Homelessness Leader	3,893	149	4,042	2,191	6,233
Licensing	(22,943)	11,628	(11,315)	16,165	4,850
Planning Policy & City Development	(90)	-	(90)	65	(25)
Port	2,222	-	2,222	1,407	3,629
Traffic & Transportation	(1,377)	202	(1,175)	4,262	3,087
	18,868	-	18,868	6,095	24,963
	126,094	11,979	138,073	58,390	196,463
Non-portfolio - HRA	(8,562)	-	(8,562)	(17,018)	(25,580)
Non-portfolio - Other	(508)	-	(508)	37,922	37,414
Net Cost of Services	117,024	11,979	129,003	79,294	208,297
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	(893)	-	(893)	7,658	6,765
Financing & Investment Income & Expenditure	21,894	(11,980)	9,914	5,253	15,167
Taxation & Non-specific Grant Income & Expenditure	(192,336)	-	(192,336)	(59,758)	(252,094)
	(171,335)	(11,980)	(183,315)	(46,847)	(230,162)
(Surplus)/Deficit on Provision of Services	(54,311)	(1)	(54,312)	32,447	(21,865)

Note 1 - The other movements column includes investment property and trading income reported internally in Portfolios, which is required by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting 2021/22 (the Code) to be included in the Financing and Investment Income and Expenditure line.

Note 2 - The 2020/21 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:

2020/21	General Fund and Earmarked Reserves	HRA Reserves	Total
	£000	£000	£000
Opening balances at 1st April	(205,940)	(20,498)	(226,438)
Plus net surplus on in year balance	(51,013)	(3,299)	(54,312)
Closing balances at 31st March	(256,953)	(23,797)	(280,750)

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2021/22	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 & Education	44,545	-	44,545	7,975	52,520
Communities & Central Services	24,778	-	24,778	10,876	35,654
Community Safety & Environment	15,324	-	15,324	1,908	17,232
Culture & City Development	8,449	-	8,449	7,856	16,305
Health, Wellbeing & Social Care	50,045	-	50,045	7,043	57,088
Housing and Preventing Homelessness	4,561	141	4,702	6,263	10,965
Leader	(24,460)	14,470	(9,990)	9,632	(358)
Licensing	(140)	-	(140)	120	(20)
Planning Policy & City Development	1,397	-	1,397	985	2,382
Port	(3,564)	226	(3,338)	3,663	325
Traffic & Transportation	15,627	-	15,627	9,211	24,838
	136,562	14,837	151,399	65,532	216,931
Non-portfolio - HRA	(6,651)	-	(6,651)	(11,118)	(17,769)
Non-portfolio - Other	66,751	-	66,751	(58,730)	8,021
Net Cost of Services	196,662	14,837	211,499	(4,316)	207,183
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	(2,196)	-	(2,196)	2,240	44
Financing & Investment Income & Expenditure	23,816	(14,837)	8,979	(7,968)	1,011
Taxation & Non-specific Grant Income & Expenditure	(189,001)	-	(189,001)	(63,600)	(252,601)
	(167,381)	(14,837)	(182,218)	(69,328)	(251,546)
(Surplus)/Deficit on Provision of Services	29,281	-	29,281	(73,644)	(44,363)

Note 1 - The other movements column includes investment property and trading income reported internally in Portfolios, which is required by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting 2021/22 (the Code) to be included in Financing and Investment Income and Expenditure line.

Analysis of Net Expenditure chargeable to the General Fund and HRA between the General Fund and HRA Balances:

2021/22	General Fund and Earmarked Reserves	HRA Reserves	Total
	£000	£000	£000
Opening balances at 1st April	(256,953)	(23,797)	(280,750)
Plus net surplus on in year balance	30,497	(1,218)	29,279
Closing balances at 31st March	(226,456)	(25,015)	(251,471)

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” (namely those reserves which 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 2020 carried forward	(27,114)	(178,825)	(20,093)	(406)	(19,175)	(17,457)	(58,002)	(321,072)	(513,532)	(834,604)
Movement in reserves during 2020/21										
Deficit or (Surplus) on the provision of services	2,239	-	(24,104)	-	-	-	-	(21,865)	-	(21,865)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(17,877)	(17,877)
Total Comprehensive Expenditure and Income	2,239	-	(24,104)	-	-	-	-	(21,865)	(17,877)	(39,742)
Adjustments between accounting basis & funding basis under regulations (see note 9)	(53,250)	-	20,809	-	(6,536)	(958)	8,223	(31,713)	31,713	-
Net Increase / Decrease before Transfers to Earmarked Reserves	(51,011)	-	(3,295)	-	(6,536)	(958)	8,223	(53,578)	13,836	(39,742)
Transfers (to) / from Earmarked Reserves (See Note 10)	49,745	(49,745)	-	-	-	-	-	-	-	-
Increase / Decrease in Year	(1,266)	(49,745)	(3,295)	0	(6,536)	(958)	8,223	(53,578)	13,836	(39,742)
Balance at 31 March 2021 carried forward	(28,381)	(228,570)	(23,388)	(406)	(25,711)	(18,415)	(49,778)	(374,650)	(499,696)	(874,346)
Movement in reserves during 2021/22										
Deficit or (Surplus) on the provision of services	(23,115)	-	(21,248)	-	-	-	-	(44,363)	-	(44,363)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(209,502)	(209,502)
Total Comprehensive Expenditure and Income	(23,115)	-	(21,248)	-	-	-	-	(44,363)	(209,502)	(253,865)
Adjustments between accounting basis & funding basis under regulations (see note 9)	53,609	-	20,025	-	2,961	738	1,952	79,286	(79,286)	-
Net Increase / Decrease before Transfers to Earmarked Reserves	30,494	-	(1,223)	-	2,961	738	1,952	34,923	(288,788)	(253,865)
Transfers (to) / from Earmarked Reserves (See Note 10)	(27,966)	27,966	-	-	-	-	-	-	-	-
Increase / Decrease in Year	2,528	27,966	(1,223)	-	2,961	738	1,952	34,923	(288,788)	(253,865)
Balance at 31 March 2022 carried forward	(25,852)	(200,604)	(24,611)	(406)	(22,750)	(17,677)	(47,826)	(339,727)	(788,484)	(1,128,211)

Note - £4.5m of the General Fund Balance as at the 31st March 2022 (£5.0m as at the 31st March 2021) 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.

2020/21 (Restated)				2021/22		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000	Notes	£000	£000	£000
154,589	(107,254)	47,335	Children, Families & Education	153,949	(101,429)	52,520
113,929	(88,200)	25,729	Communities & Central Services	121,101	(85,447)	35,654
18,633	(2,734)	15,899	Community Safety & Environment	20,161	(2,929)	17,232
18,634	(4,094)	14,540	Culture, Leisure & Economic Development	22,920	(6,615)	16,305
113,043	(62,820)	50,223	Health, Wellbeing & Social Care	116,759	(59,671)	57,088
20,388	(14,155)	6,233	Housing and Preventing Homelessness	33,031	(22,066)	10,965
6,590	(1,740)	4,850	Leader	174	(532)	(358)
694	(719)	(25)	Licensing	785	(805)	(20)
6,321	(2,692)	3,629	Planning Policy & City Development	4,400	(2,018)	2,382
13,305	(10,218)	3,087	Port	14,656	(14,331)	325
40,441	(15,478)	24,963	Traffic & Transportation	52,193	(27,355)	24,838
506,567	(310,104)	196,463		540,129	(323,198)	216,931
58,776	(84,356)	(25,580)	Non-portfolio - HRA	67,947	(85,716)	(17,769)
48,074	(10,660)	37,414	Non-portfolio - Other	29,096	(21,075)	8,021
613,417	(405,120)	208,297	Cost of Services	637,172	(429,989)	207,183
10,045	(3,280)	6,765	Other Operating Expenditure	5,060	(5,016)	44
53,532	(38,365)	15,167	Financing & Investment Income & Expenditure	53,176	(52,165)	1,011
-	(252,094)	(252,094)	Taxation & Non-specific Grant Income & Expenditure	-	(252,601)	(252,601)
676,994	(698,859)	(21,865)	(Surplus)/Deficit on Provision of Services	695,408	(739,771)	(44,363)
Items that will not be reclassified to the (Surplus)/Deficit on Provision of Services						
		(60,911)	(Surplus)/Deficit on Revaluation of PPE Assets			(65,231)
		43,153	Remeasurement of Net Defined Benefit Liability			(145,666)
		(118)	Surplus or Deficit from Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income			1,394
		(17,876)	Other Comprehensive Income and Expenditure			(209,503)
		(39,741)	Total Comprehensive Income and Expenditure			(253,866)

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 2021/22 (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 2020/21 figures please 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, namely those reserves which 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 2021 £000	Notes	31 March 2022 £000
1,526,197	Property, Plant & Equipment 12	1,716,055
97,491	Heritage Assets 15	99,580
185,448	Investment Property 16	197,228
3,045	Intangible Assets 12	2,408
54,246	Long Term Investments	64,703
50,454	Long Term Debtors 19	37,012
1,916,881	Long Term Assets	2,116,986
314,583	Short Term Investments	355,955
455	Assets Held for Sale	448
673	Inventories	480
99,056	Short Term Debtors 20	83,430
43,876	Cash & Cash Equivalents 21	38,494
458,643	Current Assets	478,807
(14,618)	Short Term Borrowing	(14,574)
(118,448)	Short Term Creditors 22	(161,790)
(5,891)	Other Short Term Liabilities	(5,308)
(62,353)	Capital Grant Receipts in Advance 33	(91,865)
(3,809)	Provisions 23	(6,062)
(205,120)	Current Liabilities	(279,599)
(79,529)	Other Long Term Liabilities 24	(74,744)
(6,470)	Provisions 23	(8,535)
(711,283)	Long Term Borrowing	(701,244)
(497,410)	Pension Liability 39	(396,396)
(1,367)	Capital Grant Receipts in Advance 33	(7,066)
(1,296,059)	Long Term Liabilities	(1,187,983)
874,345	Net Assets	1,128,211
(374,649)	Usable Reserves	(339,727)
(499,696)	Unusable Reserves 25	(788,484)
(874,345)		(1,128,211)

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.

2020/21		2021/22
£000	Notes	£000
21,865	Net surplus or (deficit) on the provision of services	44,363
82,549	Adjustment to surplus or (deficit) on the provision of services for noncash movements	124,260
(94,467)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(122,976)
9,947	Net Cash flows from operating activities	45,647
(11,241)	Net Cash flows from Investing Activities	(60,506)
(11,268)	Net Cash flows from Financing Activities	9,477
(12,562)	Net increase or (decrease) in cash and cash equivalents	(5,382)
56,438	Cash and cash equivalents at the beginning of the reporting period	43,876
43,876	Cash and cash equivalents at the end of the reporting period	38,494

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 2021/22 financial year and its financial position at the 31st March 2022.

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 City Council has carried out a detailed assessment of the likely impact of Covid-19 on its financial position and performance during 2022/23 and 2023/24 in order to assess its ability to continue as a going concern in the period to 12 months from approval of the financial statements, i.e., to March 2023. 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 City Council’s capital programme, e.g., delays caused by government restrictions, and whether there is a need to re-phase work for other reasons.
- The impact on the City Council’s subsidiaries and joint ventures.
- The impact of all the above on the City Council’s cash flow and treasury management, including availability of liquid cash (at the 31st March 2022 the City Council had around £394m 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 City 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 City Council has undertaken cash flow forecasting and expects to have cash and investments amounting to £205m at the 31st March 2023. The City Council invests some of its cash in instant access money market funds and deposit accounts which can be withdrawn on the same day when necessary. Our projections for the revenue budget show that the City Council has sufficient liquidity over the period to the end of March 2023, with positive cash balances throughout. The City Council's borrowings at the 31st March 2022 amounted to £796m leaving a headroom of £80m against the City Council's authorised limit for external debt.

The City Council does have a significant capital programme for the same period and through to the end of March 2023, but there is no intent to borrow externally to fund the capital programme before the end of March 2023. Borrowing is one source of funds for this programme. The City Council however has a high level of cash balances, and this is forecast to still be the case at the end of March 2023. Therefore, it is anticipated that borrowing for the part of the programme financed by borrowing will be deferred until at least April 2023. Until then the City Council will use its cash balances to fund the programme in the short term.

By way of context, the General Fund balance (excluding school balances) as at the 31st March 2022 was £21.5m. The City Council's prudent minimum balance on the General Fund is £8.0m. In addition, the City Council has Earmarked General Fund Reserves of £200.6m.

It is therefore noted that there is significant headroom within the General Fund to absorb the 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 City Council considers it is appropriate that 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.

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, regardless of whether 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 due to changes 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, including assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the City Council considers 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. There is no requirement to obtain valuations from a qualified valuer and when appropriate, heritage assets are carried at their insurance valuations. Additionally, there is no requirement to depreciate heritage assets that have indefinite lives and high residual values.

Except for 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 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 from asset sales exceeding £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 Council's 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. 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 various 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 based on 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 and 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 for managing 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 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 & equipment.

Property, plant & 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 & 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 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 based on 12 month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

These financial assets consist of tradable structured notes where the value of the note is determined by current interest rates, credit quality and other factors such as 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 are 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) / UK Maritime

The City Council is the accountable body for nearly all the funding of the Solent LEP UK Maritime, 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 / UK Maritime. As the City Council bears significant risks it regards itself as the principal and accordingly includes the Solent LEP / UK Maritime's income, expenditure, assets and liabilities in its accounts.

Apportionment of Interest Costs to the Housing Revenue Account

The City Council maintains two loans pools.

The first loans pool will consist of all the Council's loans taken out prior to 2020/21 for both General Fund and HRA purposes.

A second loans pool was established in 2020/21 consisting of three £20m loans that were taken from the PWLB at the HRA Certainty Rate which was 1.0% below the PWLB General Fund Certainty Rate. The borrowing costs on these loans will be charged to the HRA in their entirety.

2. Accounting Standards Issued but not yet Adopted

No new accounting standards have been issued that will be adopted by the 2022/23 Code of Practice on Local Authority Accounting.

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 because 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 at the 31st March 2022 was £123.1m (£128.2m at the 31st March 2021). 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 £9.7m as at the 31st March 2022 (£10.7m at the 31st March 2021)) 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 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, considering 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 £1,177.9m and financial instrument assets of £582.4m. Lakeside North Harbour Business Park was valued at £138.1m at the 31st March 2022, and the investment property portfolio was valued at £197.2m.</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).</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on several 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 £396m. The effects on the net pension liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.</p>
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 £28.5m, of which £5.5m (19%) was beyond 60 days past its due date. The current high inflation rates and the consequent reduction in real incomes 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 £35m to set aside as an allowance for sundry debtors alone.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Non-Domestic Rates</p>	<p>In 2021/22 the City Council retained 50% of non-domestic rates collected. The amounts of non-domestic rates collected are 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. The City Council has based its 2021/22 provision on the information provided by Analyse Local. Prior to 2020/21 we had been using the Government's national average of 4.7%, however now that 3 years has passed since the inception of the 2017 list, we feel that Analyse Local's detailed estimations are a more appropriate measure.</p> <p>On this basis the Council has made a provision of £9.4m in 2021/22.</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>
<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 £25.7m in 2021/22 for highways maintenance and £8.1m waste disposal. These arrangements gave rise to estimated liabilities at the 31st March 2022 of £35.0m for highways maintenance and £2.9m 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>

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 2021, the Council's members decided to make a change to the portfolio structure of the City Council in terms of which portfolios would continue going forward. The combined affect of this is that one portfolio was merged with another portfolio (Environment & Climate Change is now part of Community Safety & Environment). These changes mean that under the new portfolio structure two portfolio income and expenditure lines for 2020/21 change materially.

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 disclosures 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.

Portsmouth City Council
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(a) Restatement of 2020/21 Expenditure & Funding Analysis:

	Original Net Expenditure chargeable to the General Fund and HRA £000	Revised Net Expenditure chargeable to the General Fund and HRA £000	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 & 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 & Education	37,219	37,219	-	-	-	-	37,219	37,219	-	10,116	10,116	-	47,335	47,335	-
Communities & Central Services	21,256	21,256	-	-	-	-	21,256	21,256	-	4,473	4,473	-	25,729	25,729	-
Community Safety & Environment	2,254	14,479	12,225	-	-	-	2,254	14,479	12,225	366	1,420	1,054	2,620	15,899	13,279
Culture & City Development	7,961	7,961	-	-	-	-	7,961	7,961	-	6,579	6,579	-	14,540	14,540	-
Environment & Climate Change	12,225	-	(12,225)	-	-	-	12,225	-	(12,225)	1,054	-	(1,054)	13,279	-	(13,279)
Health, Wellbeing & Social Care	44,606	44,606	-	-	-	-	44,606	44,606	-	5,617	5,617	-	50,223	50,223	-
Housing and Preventing Homelessness	3,893	3,893	-	149	149	-	4,042	4,042	-	2,191	2,191	-	6,233	6,233	-
Leadership	(22,943)	(22,943)	-	11,628	11,628	-	(11,315)	(11,315)	-	16,165	16,165	-	4,850	4,850	-
Licensing	(90)	(90)	-	-	-	-	(90)	(90)	-	65	65	-	(25)	(25)	-
Planning Policy & City Development	2,222	2,222	-	-	-	-	2,222	2,222	-	1,407	1,407	-	3,629	3,629	-
Port	(1,377)	(1,377)	-	202	202	-	(1,175)	(1,175)	-	4,262	4,262	-	3,087	3,087	-
Traffic & Transportation	18,868	18,868	-	-	-	-	18,868	18,868	-	6,095	6,095	-	24,963	24,963	-
	126,094	126,094	-	11,979	11,979	-	138,073	138,073	-	58,390	58,390	-	196,463	196,463	-
	(8,562)	(8,562)	-	-	-	-	(8,562)	(8,562)	-	(17,018)	(17,018)	-	(25,580)	(25,580)	-
Non-portfolio - HRA	(508)	(508)	-	-	-	-	(508)	(508)	-	37,922	37,922	-	37,414	37,414	-
Non-portfolio - Other															
Net Cost of Services	117,024	117,024	-	11,979	11,979	-	129,003	129,003	-	79,294	79,294	-	208,297	208,297	-

(b) Restatement of 2020/21 Comprehensive Income & Expenditure Statement:

	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 & Education	154,589	154,589	-	-	(107,254)	(107,254)	-	-	47,335	47,335	-	-
Communities & Central Services	113,929	113,929	-	-	(88,200)	(88,200)	-	-	25,729	25,729	-	-
Community Safety & Environment	4,230	18,633	14,403	-	(1,610)	(2,734)	(1,124)	-	2,620	15,899	13,279	-
Culture, Leisure & Economic Development	18,634	18,634	-	-	(4,094)	(4,094)	-	-	14,540	14,540	-	-
Environment & Climate Change	14,403	-	(14,403)	-	(1,124)	-	1,124	-	13,279	-	(13,279)	-
Health, Wellbeing & Social Care	113,043	113,043	-	-	(62,820)	(62,820)	-	-	50,223	50,223	-	-
Housing and Preventing Homelessness	20,388	20,388	-	-	(14,155)	(14,155)	-	-	6,233	6,233	-	-
Leader	6,590	6,590	-	-	(1,740)	(1,740)	-	-	4,850	4,850	-	-
Licensing	694	694	-	-	(719)	(719)	-	-	(25)	(25)	-	-
Planning Policy & City Development	6,321	6,321	-	-	(2,692)	(2,692)	-	-	3,629	3,629	-	-
Port	13,305	13,305	-	-	(10,218)	(10,218)	-	-	3,087	3,087	-	-
Traffic & Transportation	40,441	40,441	-	-	(15,478)	(15,478)	-	-	24,963	24,963	-	-
	506,567	506,567	-	-	(310,104)	(310,104)	-	-	196,463	196,463	-	-
Non-Portfolio - HRA	58,776	58,776	-	-	(83,204)	(83,204)	-	-	7,768	7,768	-	-
Non-Portfolio - Other	48,074	48,074	-	-	(14,038)	(14,038)	-	-	7,354	7,354	-	-
Cost of Services	613,417	613,417	-	-	(407,346)	(407,346)	-	-	211,585	211,585	-	-

(c) Restatement of 2020/21 Note 7 (a) - Adjustments from General Fund/HRA to arrive at CIES amounts:

	Original Adjustments for Capital Purposes		Revised Adjustments for Capital Purposes		Movement Adjustments for Capital Purposes		Original Net Changes for Pension Adjustments		Revised Net Changes for Pension Adjustments		Movement Net Changes for Pension Adjustments		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
Children, Families & Education	4,573	4,573	-	5,418	5,418	-	125	125	125	-	-	10,116	10,116	-	-	-	-	-
Communities & Central Services	1,024	1,024	-	3,245	3,245	-	204	204	204	-	-	4,473	4,473	-	-	-	-	-
Community Safety	54	1,059	1,005	299	346	47	13	15	15	2	-	366	1,420	1,054	-	-	-	-
Culture, Leisure & Economic Development	5,823	5,823	-	737	737	-	19	19	19	-	-	6,579	6,579	-	-	-	-	-
Environment & Climate Change	1,005	-	(1,005)	47	-	(47)	2	-	-	(2)	-	1,054	-	(1,054)	-	-	-	-
Health, Wellbeing & Social Care	2,628	2,628	-	2,917	2,917	-	72	72	72	-	-	5,617	5,617	-	-	-	-	-
Housing and Preventing Homelessness	1,601	1,601	-	580	580	-	10	10	10	-	-	2,191	2,191	-	-	-	-	-
Leader	15,808	15,808	-	341	341	-	16	16	16	-	-	16,165	16,165	-	-	-	-	-
Licensing	-	-	-	61	61	-	4	4	4	-	-	65	65	-	-	-	-	-
Planning Policy & City Development	1,124	1,124	-	266	266	-	17	17	17	-	-	1,407	1,407	-	-	-	-	-
Port	3,690	3,690	-	576	576	-	(4)	(4)	(4)	-	-	4,262	4,262	-	-	-	-	-
Traffic & Transportation	5,325	5,325	-	740	740	-	30	30	30	-	-	6,095	6,095	-	-	-	-	-
	42,655	42,655	-	15,227	15,227	-	508	508	508	-	-	58,390	58,390	-	-	-	-	-
Non-portfolio - HRA	(19,766)	(19,766)	-	2,768	2,768	-	(20)	(20)	(20)	-	-	(17,018)	(17,018)	-	-	-	-	-
Non-portfolio - Other	11,316	11,316	-	(834)	(834)	-	27,440	27,440	27,440	-	-	37,922	37,922	-	-	-	-	-
Net Cost of Services	34,205	34,205	-	17,161	17,161	-	27,928	27,928	27,928	-	-	79,294	79,294	-	-	-	-	-
Other Income & Expenditure from the Funding Analysis	(57,426)	(57,426)	-	9,651	9,651	-	928	928	928	-	-	(46,847)	(46,847)	-	-	-	-	-
Difference between GF/HRA (surplus)/deficit and CIES (surplus)/deficit	(23,221)	(23,221)	-	26,812	26,812	-	28,856	28,856	28,856	-	-	32,447	32,447	-	-	-	-	-

(d) Restatement of 2020/21 Note 7 (b) - Segmental (Portfolio) Income:

	Original	Revised	Movement
	Income from	Income from	Income from
	Services	Services	Services
	£000	£000	£000
Children, Families & Education	(7,199)	(7,199)	-
Communities and Central Services	(7,484)	(7,484)	-
Community Safety & Environment	(756)	(1,881)	(1,125)
Culture, Leisure and Economic Development	(3,548)	(3,548)	-
Environment & Climate Change	(1,125)		1,125
Health, Wellbeing & Social Care	(30,284)	(30,284)	-
Housing and Preventing Homelessness	(5,958)	(5,958)	-
Leader	(29,219)	(29,219)	-
Licensing	(719)	(719)	-
Planning Policy & City Development	(2,603)	(2,603)	-
Port	(10,335)	(10,335)	-
Traffic & Transportation	(8,651)	(8,651)	-
	(107,881)	(107,881)	-
Non-Portfolio:			
Housing Revenue Account	(84,107)	(84,107)	-
Other	(558)	(558)	-
	(192,546)	(192,546)	-

6. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Director of Finance & Resources (Section 151 Officer) on 12th July 2022. 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 the 31st March 2022, 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				
2020/21 (Restated)	Adjustments for Capital Purposes (1)	Net Changes for Pension Adjustments (2)	Other Differences (3)	Total Adjustments
	£000	£000	£000	£000
Portfolios:				
Children, Families & Education	4,573	5,418	125	10,116
Communities & Central Services	1,024	3,245	204	4,473
Community Safety & Environment	1,059	346	15	1,420
Culture, Leisure & Economic Development	5,823	737	19	6,579
Health, Wellbeing & Social Care	2,628	2,917	72	5,617
Housing and Preventing Homelessness	1,601	580	10	2,191
Leader	15,808	341	16	16,165
Licensing	0	61	4	65
Planning Policy & City Development	1,124	266	17	1,407
Port	3,690	576	(4)	4,262
Traffic & Transportation	5,325	740	30	6,095
	42,655	15,227	508	58,390
Non-portfolio - HRA	(19,766)	2,768	(20)	(17,018)
Non-portfolio - Other	11,316	(834)	27,440	37,922
Net Cost of Services	34,205	17,161	27,928	79,294
Other Income & Expenditure from the Funding Analysis	(57,426)	9,651	928	(46,847)
Difference between GF/HRA (surplus)/deficit and CIES (surplus)/deficit	(23,221)	26,812	28,856	32,447

Adjustments from GF/HRA to arrive at CIES amounts				
2021/22	Adjustments for Capital Purposes (1)	Net Changes for Pension Adjustments (2)	Other Differences (3)	Total Adjustments
	£000	£000	£000	£000
Portfolios:				
Children, Families & Education	(2,582)	10,257	300	7,975
Communities & Central Services	4,056	6,517	303	10,876
Community Safety & Environment	1,073	798	37	1,908
Culture, Leisure & Economic Development	6,077	1,703	77	7,857
Health, Wellbeing & Social Care	1,297	5,461	285	7,043
Housing and Preventing Homelessness	5,087	1,118	58	6,263
Leader	8,957	643	30	9,630
Licensing	0	116	4	120
Planning Policy & City Development	605	382	(2)	985
Port	2,523	1,110	30	3,663
Traffic & Transportation	7,560	1,578	73	9,211
	34,653	29,683	1,195	65,531
Non-portfolio - HRA	(16,900)	5,467	315	(11,118)
Non-portfolio - Other	(42,158)	(800)	(15,770)	(58,728)
Net Cost of Services	(24,405)	34,350	(14,260)	(4,315)
Other Income & Expenditure from the Funding Analysis	(80,556)	10,301	928	(69,327)
Difference between GF/HRA (surplus)/deficit and CIES (surplus)/deficit	(104,961)	44,651	(13,332)	(73,642)

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 Comprehensive Income & Expenditure Statement (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:

2020/21 (Restated)		2021/22
Income from Services £000		Income from Services £000
	Portfolios:	
(7,199)	Children, Families & Education	(9,367)
(7,484)	Communities and Central Services	(8,350)
(1,881)	Community Safety & Environment	(2,197)
(3,548)	Culture & City Development	(6,057)
(30,284)	Health, Wellbeing & Social Care	(27,350)
(5,958)	Housing and Preventing Homelessness	(5,329)
(29,219)	Leader	(30,505)
(719)	Licensing	(805)
(2,603)	Planning Policy & City Development	(1,961)
(10,335)	Port	(14,369)
(8,651)	Traffic & Transportation	(12,803)
<u>(107,881)</u>		<u>(119,093)</u>
(84,107)	Housing Revenue Account	(85,539)
(558)	Other	(718)
<u>(192,546)</u>		<u>(205,350)</u>

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 portfolio entries and totals will therefore not agree to the entries in the EFA, CIES or Expenditure and Income Funded by Nature disclosure, as the gross income entries or the 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. In particular, grants and other contributions are not included in this disclosure but are included in the EFA, CIES etc.

8. Expenditure and Income Analysed by Nature

The City Council's expenditure and income is analysed as follows:

	2020/21	2021/22
	£000	£000
<u>Expenditure</u>		
Employee benefits expenses	217,286	242,101
Other services expenses	359,974	364,488
Depreciation, amortisation, impairment, revaluations	46,230	40,941
Interest payments	27,438	26,793
Precepts and levies	86	86
Payments to Housing Capital Receipts Pool	928	927
Loss on the disposal of assets	9,069	4,421
Investment property expenditure and decreases in fair value	1,777	551
Trading expenses	14,206	15,100
Total expenditure	<u>676,994</u>	<u>695,408</u>
<u>Income</u>		
Fees, charges and other service income	(165,154)	(173,642)
Surplus on associates and joint ventures	(150)	(150)
Interest and investment income	(5,544)	(2,977)
Income from council tax and non-domestic rates	(135,017)	(141,964)
Government grants and contributions	(358,295)	(369,174)
Gain on disposal of assets	(2,338)	(3,107)
Investment property income and increases in fair value	(15,489)	(28,104)
Trading income	(16,872)	(20,653)
Total Income	<u>(698,859)</u>	<u>(739,771)</u>
(Surplus) or Deficit on the Provision of Services	<u>(21,865)</u>	<u>(44,363)</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:

2020/21	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)	(22,358)	(4,453)			
- 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)	(77,472)	17,825	(23,258)	(1,905)	(24,043)
- Other Adjustments to Revenue Resources	(27,840)	23			
Total Adjustment to Revenue Resources	(127,670)	13,395	(23,258)	(1,905)	(24,043)
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	(1,632)	4,186		(2,554)	
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(929)			929	
Capital grants and contributions unapplied credited to the CIES	56,529	3,228			(59,758)
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	9,779			915	
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	10,778				
Total Adjustments between Revenue and Capital Resources	74,525	7,414	-	(710)	(59,758)
Adjustments to Capital Resources					
Use of Major Repairs Reserve to finance capital expenditure			16,722		
Application of capital receipts to finance capital expenditure				6,110	
Application of capital grants to finance capital expenditure					92,024
Application of City Deal Grant to finance capital expenditure					
Other adjustments to capital resources	(104)			(4,453)	
Total Adjustments to Capital Resources	(104)	-	16,722	1,657	92,024
Total Adjustments	(53,250)	20,809	(6,536)	(958)	8,223

2021/22	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)	(37,335)	(7,281)	-	-	-
- 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)	(22,857)	12,462	(23,363)	-	(50,100)
Other Adjustments to Revenue Resources	14,673	(315)	-	-	-
Total Adjustment to Revenue Resources	(45,519)	4,867	(23,363)	-	(50,100)
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	42	7,215	-	(7,257)	-
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	55,947	7,652	-	-	(63,600)
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	10,311	-	-	1,322	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	33,853	291	-	-	-
Total Adjustments between Revenue and Capital Resources	99,226	15,158	-	(5,008)	(63,600)
Adjustments to Capital Resources					
Use of Major Repairs Reserve to finance capital expenditure	-	-	26,324	-	-
Application of capital receipts to finance capital expenditure	-	-	-	7,766	-
Application of capital grants to finance capital expenditure	-	-	-	-	115,652
Application of City Deal Grant to finance capital expenditure	-	-	-	-	-
Other adjustments to capital resources	(98)	-	-	(2,020)	-
Total Adjustments to Capital Resources	(98)	-	26,324	5,746	115,652
Total Adjustments	53,609	20,025	2,961	738	1,952

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 2021/22. The "Other" balance relates to reserves that have in-year transactions or balances less than £7m and are held for a variety of reasons.

	Reststed* Balance at 31 March 2020 £000	Reststed* Transfers (to) / from 2020/21 £000	Reststed* Balance at 31 March 2021 £000	Transfers (to) / from 2021/22 £000	Balance at 31 March 2022 £000
General Fund					
Earmarked for Capital Purposes	(41,632)	(3,818)	(45,450)	(4,722)	(50,171)
Medium Term Resource Strategy Reserve	(21,336)	2,803	(18,533)	(1,742)	(20,276)
City Deal Reserves	(24,566)	(367)	(24,933)	4,032	(20,901)
Highways Maintenance Reserve	(9,320)	(36)	(9,356)	(745)	(10,101)
Investment Reserve	(17,400)	-	(17,400)	17,400	-
Portfolio Reserves	(6,250)	(2,097)	(8,347)	3,471	(4,875)
Covid-19 Reserve	-	(43,002)	(43,002)	18,237	(24,765)
Other	(58,320)	(3,229)	(61,549)	(7,973)	(69,522)
	(178,824)	(49,746)	(228,570)	27,958	(200,612)
Housing Revenue Account Capital Reserve	(406)	-	(406)	-	(406)
Total	(179,230)	(49,746)	(228,976)	27,958	(201,017)

* "Other" includes the Private Finance Initiative Reserve balances of £6,147k at the 31st March 2020 and £5,478k at the 31st March 2021. Although this reserve was shown separately in the 2020/21 Statement of Accounts, it has now been amalgamated into "Other" as its balance is now below our preparer materiality limit of £7m.

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.

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 - This reserve consisted of capital funds set aside for re-investment.

Portfolio Reserves - These reserves provide a mechanism to allow underspending by portfolios in 2021/22 and previous years to be carried forward into 2022/23.

Covid-19 Reserve - This reserve holds funds that will be required to cover additional expenditure resulting from the Covid-19 pandemic.

11. Notes to the Comprehensive Income & Expenditure Statement

(a) Other Operating Expenditure

2020/21 £000		2021/22 £000
6,731	(Gain)/Loss on the disposal of Non-Current Assets	1,314
34	Miscellaneous Operating Income and Expenditure	(1,270)
6,765		44

(b) Financing & Investment Income and Expenditure

2020/21 £000			2021/22 £000
27,438	Interest payable and similar charges		26,793
(5,545)	Interest & investment income		(2,977)
9,651	Net pension interest on defined benefit liability	39	10,301
(2,666)	(Surplus)/deficit on trading undertakings & other operations		(5,553)
(13,711)	Income, expenditure and changes in the fair value of investment properties	16	(27,553)
15,167			1,011

(c) Taxation & Non-Specific Grant Income and Expenditure

2020/21 £000			2021/22 £000
(82,528)	Income from council tax	33	(87,850)
(57,319)	Non Ring Fenced government grants	33	(47,037)
(59,758)	Capital grants & contributions	33	(63,600)
(52,489)	Retained non-domestic rates	33	(54,114)
(252,094)			(252,601)

12. Non-Current Assets (including Property Plant & Equipment)

Movements on Balances: Comparative Movements in 2020/21

	PPE					Other Land & Buildings - Surplus £000	Assets Under Construction £000	Total £000	Other Asset Categories £000	Combined Total £000
	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets* £000	Community Assets £000					
Cost or Valuation										
At 1st April 2020	620,318	475,251	64,844		3,217	2,020	104,239	1,269,889	270,657	1,540,546
Opening adjustment	-	50	-		(4)	-	-	46	0	46
Revised as at 1st April 2020	620,318	475,301	64,844		3,213	2,020	104,239	1,269,935	270,657	1,540,592
Additions	20,045	1,162	5,771		-	11,553	59,305	97,836	-	97,836
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	(107)	11,360	(709)		7	(5,062)	-	5,489	25,635	31,124
Disposals	(2,097)	(9,811)	-		-	-	-	(11,908)	-	(11,908)
Reclassifications from Assets Under Construction	24,768	5,963	1,055		-	-	(36,650)	(4,864)	1,041	(3,823)
Reclassifications between categories	-	6,744	-		-	(330)	-	6,414	(6,414)	-
At 31st March 2021	662,927	490,719	70,961		3,220	8,181	126,894	1,362,902	290,919	1,653,821
Accumulated Depreciation and Impairment										
At 1st April 2020	-	(17,376)	(36,090)		(21)	-	-	(53,487)	(3,739)	(57,226)
Opening adjustment	-	(45)	-		-	-	-	(45)	0	(45)
Revised as at 1st April 2020	-	(17,421)	(36,090)		(21)	-	-	(53,532)	(3,739)	(57,271)
Depreciation Charge in Year	(23,258)	(17,305)	(3,244)		(12)	(8)	-	(43,827)	(849)	(44,676)
Depreciation written out on revaluation	23,179	16,570	649		-	8	-	40,406	109	40,515
Impairment losses/(reversals) to SDPS and/or Revaluation Reserve	-	-	-		-	-	-	-	-	-
Disposals	79	686	-		-	-	-	765	-	765
Reclassifications from Assets Under Construction	-	-	-		-	-	-	-	-	-
Reclassifications between categories	-	-	-		-	-	-	-	-	-
At 31st March 2021	-	(17,470)	(38,685)		(33)	-	-	(56,188)	(4,479)	(60,667)
Net Book Value										
At 1st April 2020	620,318	457,875	28,754		3,196	2,020	104,239	1,216,402	266,918	1,483,320
At 31st March 2021	662,927	473,249	32,276		3,187	8,181	126,894	1,306,714	286,440	1,593,154

Note 1 - The Other Asset Category column includes investment properties (see also note 16), heritage assets (see also note 15) and intangible assets.

Note 2 - PPE Infrastructure Assets. In accordance with the Temporary Relief offered by CIPFA's update to the Code of Practice on Local Authority Accounting, PPE-Infrastructure assets have been shown on a net book value basis so does not separately show the gross cost and accumulated depreciation. This presentation is because historical reporting practices and resultant information deficits mean that reporting the figures on a gross basis would not faithfully represent the asset position to users of the financial statements.

The City Council has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

There is no impact of not showing the gross figures on the financial statements as the balance sheet shows all asset categories on a net basis, with gross reporting only being in a memorandum note. Infrastructure assets are by their very nature not tradeable/saleable assets or have an alternative use and are held at cost not revalued amount. The gross cost would simply be the original cost of the asset while the net cost represents this gross figure less depreciation to date. Depreciation is calculated on the current net value not the gross value (using carrying value and remaining life).

The City Council has determined in accordance with Regulation [30M England or 24L Wales] of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

To effectively show PPE-Infrastructure assets on a net basis, the infrastructure asset entries have been removed from Note 12 Movement on PPE assets and are instead shown separately in a Movement in Infrastructure assets note (see below), along with a reconciliation with the PPE entries in the Balance Sheet.

*Infrastructure - In year Movement

	2020/21 £000
Net Book Value (Modified Historic Cost)	
At 1st April	222,973
Additions	-
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	(4,165)
Disposals	-
Reclassifications from Assets Under Construction	3,823
Reclassifications between categories	-
Depreciation Charge in Year	(6,675)
Depreciation written out on revaluation	3,527
At 31st March	219,483

The following note provides a reconciliation between the Movement on PPE note versus the entry on the Balance Sheet for PPE.

	2020/21 £000
Infrastructure Assets	219,483
Other PPE Assets	1,306,714
PPE Assets per Balance Sheet	1,526,197
Non-PPE Assets	286,440
	1,812,637

Movements in 2021/22

	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			
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	
At 1st April 2021	662,927	490,719	70,961		3,220	8,181	126,894	290,919	1,653,821
Opening adjustment	-	-	-		-	-	-	-	-
Revised as at 1st April 2021	662,927	490,719	70,961		3,220	8,181	126,894	290,919	1,653,821
Additions	17,261	19,546	792		-	-	131,496	-	169,095
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	3,374	30,592	(3,271)		(9)	(1,308)	-	19,467	48,845
Disposals	(4,300)	(4,904)	(92)		-	-	-	-	(9,296)
Reclassifications from Assets Under Construction	25,658	9,364	4,640		-	-	(51,611)	1,070	(10,879)
Reclassifications between categories	-	6,488	-		-	-	-	(6,488)	-
At 31st March 2022	704,920	551,805	73,030		3,211	6,873	206,779	304,968	1,851,586
Accumulated Depreciation and Impairment									
At 1st April 2021	-	(17,470)	(38,685)		(33)	-	-	(4,479)	(60,667)
Opening adjustment	-	-	-		-	-	-	-	-
Revised as at 1st April 2021	-	(17,470)	(38,685)		(33)	-	-	(4,479)	(60,667)
Depreciation Charge in Year	(23,363)	(12,790)	(3,874)		(11)	-	-	(864)	(40,902)
Depreciation written out on revaluation	23,211	19,108	233		-	-	-	39	42,591
Impairment losses/(reversals) to SDPS and/or Revaluation Reserve	-	-	-		-	-	-	-	-
Disposals	152	510	63		-	-	-	-	725
Reclassifications from Assets Under Construction	-	-	-		-	-	-	-	-
Reclassifications between categories	-	-	-		-	-	-	-	-
At 31st March 2022	-	(10,642)	(42,263)		(44)	-	-	(5,304)	(58,253)
Net Book Value									
At 1st April 2021	662,927	473,249	32,276		3,187	8,181	126,894	286,440	1,593,154
At 31st March 2022	704,920	541,163	30,767		3,167	6,873	206,779	299,664	1,793,333

Note 1 - The Other Asset Category column includes investment properties (see also note 16), heritage assets (see also note 15) and intangible assets (£2.4million).

Note 2 - PPE Infrastructure Assets. In accordance with the Temporary Relief offered by CIPFA's update to the Code of Practice on Local Authority Accounting, PPE-Infrastructure assets have been shown on a net book value basis so does not separately show the gross cost and accumulated depreciation. This presentation is because historical reporting practices and resultant information deficits mean that reporting the figures on a gross basis would not faithfully represent the asset position to users of the financial statements.

The City Council has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

There is no impact of not showing the gross figures on the financial statements as the balance sheet shows all asset categories on a net basis, with gross reporting only being in a memorandum note. Infrastructure assets are by their very nature not tradeable/saleable assets or have an alternative use and are held at cost not revalued amount. The gross cost would simply be the original cost of the asset while the net cost represents this gross figure less depreciation to date. Depreciation is calculated on the current net value not the gross value (using carrying value and remaining life).

The City Council has determined in accordance with Regulation [30M England or 24L Wales] of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

To effectively show PPE-Infrastructure assets on a net basis, the infrastructure asset entries have been removed from Note 12 Movement on PPE assets and are instead shown separately in a Movement in Infrastructure assets note (see below), along with a reconciliation with the PPE entries in the Balance Sheet.

*Infrastructure - In year Movement

	2020/21 £000	2021/22 £000
Net Book Value (Modified Historic Cost)		
At 1st April	222,973	219,483
Additions	-	-
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	(4,165)	(1,803)
Disposals	-	-
Reclassifications from Assets Under Construction	3,823	10,879
Reclassifications between categories	-	-
Depreciation Charge in Year	(6,675)	(6,279)
Depreciation written out on revaluation	3,527	106
At 31st March	219,483	222,386

The following note provides a reconciliation between the Movement on PPE note versus the entry on the Balance Sheet for PPE.

	2020/21 £000	2021/22 £000
Infrastructure Assets	219,483	222,386
Other PPE Assets	1,306,714	1,493,669
PPE Assets per Balance Sheet	1,526,197	1,716,055
Non-PPE Assets	286,440	299,664
	1,812,637	2,015,719

Tangible non-current assets have been valued as follows:

Asset Category	Valuation Basis
Council dwellings	Existing use value – social housing reflecting the guidance issued by MHCLG
Other Land & Buildings	Existing use value
Infrastructure	Historic cost depreciated as appropriate
Vehicles & Plant	Historic cost depreciated as appropriate
Community assets other than land	Historic cost depreciated as appropriate
Community assets land	Historic cost
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 the 31st March 2022.

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 2021/22 £17.2m of revaluations up were charged to the Surplus/Deficit on the Provision of Services (in 2020/21 the equivalent figure was £22.5m up).

At the 31st March 2022, no schools for which we hold information on our balance sheet had applied to become an academy in the 2022/23 financial year.

13. Dates and amounts of valuations of tangible non-current assets

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Investment Property	Held for Sale	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2021/22	704,920	395,682	-	-	-	6,873	197,228	448	-	1,305,151
2020/21	-	62,749	-	-	-	-	-	-	-	62,749
2019/20	-	19,473	-	-	-	-	-	-	-	19,473
2018/19	-	63,234	4,582	-	-	-	-	-	-	67,816
2017/18	-	25	-	-	-	-	-	-	-	25
Valued at Historic Cost	-	-	26,185	222,386	3,167	-	-	-	206,779	458,517
	704,920	541,163	30,767	222,386	3,167	6,873	197,228	448	206,779	1,913,731

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 type of asset and nature of use.

d) IT Equipment

Generally five years, although less for some assets depending on the type of asset and nature of use.

e) Infrastructure assets

Forty years except for environmental improvements and enhancements where a lower life is 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	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Later £000
Children, Families & Education	9,193	2,645	454	-	-	-
Communities & Central Services	8,702	980	757	7	7	7
Community Safety & Environment	36,320	1,173	-	-	-	-
Culture, Leisure & Economic Development	23,345	12,885	6,136	-	-	-
Health, Wellbeing & Social Care	6,407	5,940	-	-	-	-
Leader	48,652	24,023	24,744	-	-	-
Commercial Port	25,226	30,035	8,071	-	-	-
Planning, Policy & City Development	33,940	27,466	29,012	20,260	25	-
Traffic & Transportation	33,824	46,020	6,452	5,935	5,935	1,810
Housing Portfolio (HIP)	111,345	159,982	50,972	33,008	34,103	849
Total Capital Programme	336,954	311,149	126,598	59,210	40,070	2,666

b) Contractual Commitments

As at the 31 March 2022, the City Council had entered into several contracts for the construction or enhancement of property, plant & equipment in 2022/23 and in future years. The significant capital contracts identified as at the 31st March 2022 and the committed amounts outstanding on these are set out in the table below:

Capital Contracts	£000
North Portsea Island Coastal Defence Scheme	7,065
Border Control Post Construction	4,912
Deconstruction of Horatia and Leamington House	2,076
Solar PV and Battery Storage Design and Build	1,896
Repair, Refurbishment and Improvement to the Building Fabric of Dunsmore Close Properties	1,739
Flying Bull School Inclusion Centre	1,547
Floating Dock Dredging and Pile Removal	1,339
Construction of Plot 4 at Dunsbury Hill	1,211
Construction of 28 Supported Living properties at former Longdean Lodge	1,155
Southsea Coastal Defence Scheme	905
Cladding Remediation	818
Tweed Court Roofing and External Repairs	636

Note - Only contractual capital commitments over £0.5m have been included in the above note.

15. Heritage Assets

Movements on Balances: Comparative Movements in 2020/21

	2020/21				Total £000
	Museum Collections £000	Heritage Categories Historic Buildings £000	Archives £000	Others £000	
Cost or Valuation					
Cost or Valuation as at 1st April 2020	15,810	41,443	11,843	6,205	75,301
Opening Adjustment(s)	-	-	-	-	-
Revised Cost or Valuation as at 1st April 2020	15,810	41,443	11,843	6,205	75,301
Additions / Donations	-	-	-	-	-
Revaluation increases/(decreases) to CIES:	-	275	-	-	275
Revaluation increases/(decreases) to Revaluation Reserve:	4,800	15,740	-	1,242	21,782
Disposals	-	-	-	-	-
Reclassifications:	-	89	-	45	134
Cost or Valuation as at 31st March 2021	20,610	57,547	11,843	7,492	97,492
Accumulated Depreciation and Impairment					
Depreciation and Impairment as at 1st April 2020	-	(20)	-	(2)	(22)
Opening adjustment	-	-	-	-	-
Revised Depreciation and Impairment as at 1st April 2020	-	(20)	-	(2)	(22)
Depreciation Charge in Year:	-	(6)	-	-	(6)
Depreciation written out on revaluation:	-	28	-	-	28
Disposals	-	-	-	-	-
Impairment losses/(reversals) to CIES:	-	-	-	-	-
Impairment losses/(reversals) to Revaluation Reserve:	-	-	-	-	-
Depreciation and Impairment as at 31st March 2021	-	2	-	(2)	-
Net Book Value					
At 1st April 2020	15,810	41,423	11,843	6,203	75,279
At 31st March 2021	20,610	57,549	11,843	7,490	97,492

Movements in 2021/22

		2021/22				Total £000
		Museum Collections £000	Heritage Categories Historic Buildings £000	Archives £000	Others £000	
Cost or Valuation						
Cost or Valuation as at 1st April 2021		20,610	57,547	11,843	7,492	97,492
Opening Adjustment(s)		-	-	-	-	-
Revised Cost or Valuation as at 1st April 2021		20,610	57,547	11,843	7,492	97,492
Additions / Donations		-	-	-	-	-
Revaluation increases/(decreases) to CIES:		-	-	-	-	-
Revaluation increases/(decreases) to Revaluation Reserve:		118	1,142	-	45	1,305
Disposals		-	-	-	-	-
Reclassifications:		-	783	-	-	783
Cost or Valuation as at 31st March 2022		20,728	59,472	11,843	7,537	99,580
Accumulated Depreciation and Impairment						
Depreciation and Impairment as at 1st April 2021		-	2	-	(2)	-
Opening adjustment		-	-	-	-	-
Revised Depreciation and Impairment as at 1st April 2021		-	2	-	(2)	-
Depreciation Charge in Year:		-	(39)	-	-	(39)
Depreciation written out on revaluation:		-	39	-	-	39
Disposals		-	-	-	-	-
Impairment losses/(reversals) to CIES:		-	-	-	-	-
Impairment losses/(reversals) to Revaluation Reserve:		-	-	-	-	-
Depreciation and Impairment as at 31st March 2022		-	2	-	(2)	-
Net Book Value						
At 1st April 2021		20,610	57,549	11,843	7,490	97,492
At 31st March 2022		20,728	59,474	11,843	7,535	99,580

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 £20.7m.

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 looking 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 collection 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	2020/21	2021/22
	£000	£000
Gross Income from Investment Property	(11,090)	(9,835)
Gross Expenditure relating to Investment Property	1,777	551
Net Income from Investment Property	<u>(9,313)</u>	<u>(9,284)</u>

The figures above relate to properties meeting the definition of investment properties (namely held solely for income gain or capital appreciation) and resultingly 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.

	2020/21	2021/22
	£000	£000
Cost or Valuation		
Balance at 1st April	187,906	185,448
Opening Adjustments	-	-
Revised Balance at 1st April	187,906	185,448
Additions - Purchases	-	0
Revaluation increases/(decreases) to I&E and/or Revaluation Reserve	4,398	18,268
Disposals	-	-
Reclassifications from Investment Property Assets under Construction	-	-
Reclassifications from/(to) other asset categories	(6,856)	(6,488)
Balance at 31st March	185,448	197,228
Depreciation and Impairment		
Balance at 1st April		
Opening Adjustments	-	-
Revised Balance at 1st April	-	-
Depreciation Charge in Year	-	-
Depreciation written out on revaluation	-	-
Impairment losses/(reversals) to I&E and/or Revaluation Reserve	-	-
Disposals	-	-
Reclassifications	-	-
Balance at 31st March	-	-
Net Book Value at start of year	187,906	185,448
Net Book Value at end of year	185,448	197,228

Reconciliation with CIES	2020/21	2021/22
	£000	£000
Net income from Investment Property	(9,313)	(9,284)
Revaluation increases/(decreases) to I&E and/or Revaluation Reserve	(4,398)	(18,268)
	<u>(13,711)</u>	<u>(27,552)</u>
Less Revaluation increases/(decreases) through Revaluation Reserve	-	(1)
Entry in CIES	<u>(13,712)</u>	<u>(27,553)</u>

Note - The reclassification of assets to other asset categories represents assets which have been identified as part of an on-going review of investment properties as no longer meeting the definition of an investment property.

Fair Value Hierarchy

Details of the City Council's investment properties and information about the fair value hierarchy as at the 31st March 2022 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2022 £000
Commercial Properties:				
Industrial	-	90,815	-	90,815
Leisure	-	2,566	-	2,566
Retail	-	96,355	-	96,355
Other Investment Properties	-	7,492	-	7,492
Total	-	197,228	-	197,228

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 were no Investment Properties purchased during 2021/22.

Changes in Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

17. Financial Instrument

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
	2021	2022	2021	2022	2022
	£000	£000	£000	£000	£000
<u>Financial Assets</u>					
Amortised Cost - Investments	29,850	47,036	314,583	355,955	402,992
Amortised Cost - Debtors	50,454	37,012	64,637	67,170	104,182
Amortised Cost - Cash Equivalents			42,920	37,598	37,598
Total financial assets carried at amortised cost	80,303	84,048	422,140	460,723	544,772
Fair value through profit and loss - Investments	15,178	9,943	-	-	9,943
Fair value through other comprehensive income - Designated equity instruments	9,218	7,725	-	-	7,725
Total Financial Assets	104,699	101,716	422,140	460,723	562,440
<u>Financial Liabilities</u>					
Amortised Cost - Borrowings	(777,583)	(789,005)	(20,508)	(19,883)	(808,888)
Amortised Cost - Creditors	-	-	(90,442)	(160,872)	(160,872)
Total Financial Liabilities	(777,583)	(789,005)	(110,950)	(180,755)	(969,760)

At the 31st March 2018 the Council held equity shares in 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 to reclassify as measured at fair value through other comprehensive income are detailed below.

Description	Nominal	Fair Value	Change in
	£000	£000	fair value during 2021/22 £000
Portico Ltd	2,027	5,220	1
Hampshire Community Bnk	3,750	3,750	-
UK Municipal Bonds Agency Plc	150	150	-
Ravelin Housing Ltd	-	(1,395)	(1,395)

The above investments are held to meet service objectives of the City Council and none of the above investments paid a dividend in 2021/22.

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:

	2020/21		2021/22	
	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	121	-	86	-
Investments in equity instruments designated at fair value through other comprehensive income	-	(106)	-	1,396
Financial assets measured at amortised cost	5,793	-	1,843	-
Total net gains / losses	5,914	(106)	1,929	1,396
Financial assets measured at amortised cost	(5,408)	-	(2,798)	-
Financial assets measured at fair value through profit or loss	(191)	-	(191)	-
Total Interest Revenue	(5,599)	-	(2,988)	-
Interest Expense	26,880	-	26,101	-

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 31/3/21 £001	As at 31/3/22 £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	15,178	9,943
Fair Value through Other Comprehensive Income				
Equity shareholding in Portico Ltd	Level 2 (Other significant observable inputs)	Net Worth	5,218	5,220
Equity shareholding in Hampshire Community Bnk Ltd	Level 2 (Other significant observable inputs)	Purchase price of shares	3,750	3,750
Equity shareholding in Victory Energy Supply Ltd	Level 2 (Other significant observable inputs)	Purchase price of shares	100	-
Equity shareholding in UK Municipal Bonds Agency Plc	Level 2 (Other significant observable inputs)	Purchase price of shares	150	150
Ravelin Housing Ltd	Level 2 (Other significant observable inputs)	Level 2 (Other significant observable inputs)	-	(1,395)
Total			9,218	7,725

The equity holdings shown above are not held for trading and has been designated as held at fair value through other comprehensive income.

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 2021		31 March 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Borrowing	(725,900)	(1,053,296)	(715,819)	(943,383)
Service Concessions and Finance Lease	(72,191)	(97,150)	(93,069)	(73,645)
Other Creditors	(90,442)	(90,442)	(160,872)	(160,872)
Total	(888,533)	(1,240,888)	(969,760)	(1,177,900)

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 2021		31 March 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Investments	396,748	388,512	439,193	451,045
Debtors	115,091	117,764	104,182	131,359
Total	511,839	506,276	543,375	582,404

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 2021				
	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	-	(1,053,296)	-	(1,053,296)
Service Concessions and Finance Lease Liabilities	-	(97,150)	-	(97,150)
Other creditors	-	(90,442)	-	(90,442)
Total	-	(1,240,888)	-	(1,240,888)
Financial Assets				
<i>Financial assets held at amortised cost:</i>				
Investments	-	388,513	-	388,513
Debtors	-	117,763	-	117,763
Total	-	506,276	-	506,276

31 March 2022				
	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	-	(943,383)	-	(943,383)
Service Concessions and Finance Lease Liabilities	-	(73,645)	-	(73,645)
Other creditors	-	(160,872)	-	(160,872)
Total	-	(1,177,900)	-	(1,177,900)
Financial Assets				
<i>Financial assets held at amortised cost:</i>				
Investments	-	451,045	-	451,045
Debtors	-	131,359	-	131,359
Total	-	582,404	-	582,404

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.

£847.2m of the fair value of borrowing at the 31st March 2022 (£945.5m at the 31st March 2021) represents loans from the Public Works Loans Board (PWLB). The fair value of PWLB loans of £847.2m 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 £633.7m would be valued at £693.2m, 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 £213.5m for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £847.2m.

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
- no early repayment or impairment is recognised	- no early repayment is recognised
- estimated ranges of interest rates at the 31 st March 2022 of 1.55% to 2.66% for loans receivable, based on new lending rates for equivalent loans at that date	- estimated ranges of interest rates at the 31 st March 2022 of 1.40% to 2.66% for loans payable 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	

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 counterparty.

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 the City Council's deposits, but there was no evidence at the 31 March 2022 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 increased cost of food and fuel is likely to have increased the City Council's exposure to credit risk, although the extent of this is 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. Additionally, the City Council's treasury management investments and finance lease debtors are also excluded as there is no experience of default (ie. principal not being repaid with any interest due) 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 2022 (Net of bad debt provision)	Historical Experience of Default	Historical Experience Adjusted for Market Conditions at 31 March 2022	Estimated Maximum Exposure to Default & Uncollectability at 31 March 2022	Estimated Maximum Exposure to Default & Uncollectability at 31 March 2021
	£000 A	% B	% C	£000 (A x C)	£000
Advances to commercial companies	14,508	0.0	0.3	44	831
Customers	60,952	4.6	6.3	3,858	3,730
Housing rents	683	0.4	0.7	5	20
Housing loans	4,101	0.0	0.0	0	0
				3,906	4,581

The City Council does not generally allow credit for customers. However, there is a balance of £9.8m that is past its due date for payment. This can be analysed by age as follows:

	£000
Less than three months	4,501
Three to six months	979
Six months to one year	900
More than one year	3,405
	9,785

The City Council attempts to recover outstanding debts until it is no longer economically viable to do so.

Liquidity Risk

£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.

A further £64.5m 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).

The remainder of the City Council's borrowing consists of fixed rate PWLB debt. These loans have a weighted average remaining term of 30 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 is as follows:

Outstanding % of Total		Outstanding % of Total	
31 March 2021 Portfolio	Total Financial Liabilities	31 March 2022 Portfolio	
£000	%	£000	%
641,323	79 Public Works Loans Board	633,720	73
79,979	10 Other Institutions (borrowing)	77,555	9
90,442	11 Trade Payables	159,410	18
811,744	100	870,685	100
Analysis of Loans by Maturity			
100,469	12 Within 1 year	169,454	20
10,043	1 Between 1 and 2 years	10,032	1
28,963	4 Between 2 and 5 years	28,236	3
89,719	11 Between 5 and 10 years	89,822	10
47,268	6 Between 10 and 15 years	47,383	5
55,863	7 Between 15 and 20 years	61,275	7
36,305	4 Between 20 and 25 years	24,281	3
14,353	2 Between 25 and 30 years	33,376	4
102,619	13 Between 30 and 35 years	97,692	11
114,523	14 Between 35 and 40 years	128,134	15
77,119	10 Between 40 and 45 years	68,000	8
134,500	17 Between 45 and 50 years	113,000	13
811,744	100	870,685	100

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 2023.
- 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 is like 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 several 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 rates.

According to this assessment strategy, at the 31st March 2022, 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 £2.0m. The impact of a 0.5% fall in interest rates would have been a reduction in investment income of £2.0m.

19. Long-term Debtors

2020/21 £000	2021/22 £000
11,906 Finance Lease Debtors	11,797
12,352 Portico Shipping Limited	12,914
16,699 Pension fund contributions paid in advance	-
9,497 Other	12,301
<u>50,454</u>	<u>37,012</u>

20. Short-term Debtors

2020/21 £000	Outstanding Debtors at 31st March (Net of Bad Debt Provision)	2021/22 £000
1,263	Council Tax debtor (between preceptor/billing authority)	1,384
321	NNDR retained income debtor (between preceptor/billing authority)	20
16,201	NNDR (debtor for prior overpayments due back from MHCLG)	987
19,038	Council Tax receivable from taxpayers	24,896
4,364	Non domestic rates receivable from taxpayers	4,253
30,491	Trade debtors	36,304
12,207	Government Departments	10,461
6,778	Housing Benefits	5,785
3,043	Housing Rents	3,281
7,555	Other debtors	9,576
29,776	Prepayments & accrued income	20,980
(31,981)	Provision for bad debts	(34,497)
<u>99,056</u>		<u>83,430</u>

21. Cash and Cash Equivalents

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

31 March 2021 £000	31 March 2022 £000
956	896
(1,590)	(3,822)
44,510	41,420
<u>43,876</u>	<u>38,494</u>

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

22. Short-term Creditors

2020/21 £000	Outstanding Creditors at 31st March	2021/22 £000
(16,629)	Trade Creditors	(35,286)
(22,551)	NDR taxpayer receipts not yet paid to Government	(17,487)
(920)	Council Tax refundable to taxpayers	(901)
(1,225)	Non domestic rates refundable to taxpayers	(999)
(3,489)	Government Departments	(18,600)
(23,927)	Other creditors	(34,068)
(49,707)	Receipts in Advance	(54,449)
(118,448)		(161,790)

23. Provisions

	Short Term £000	Long Term £000	Total £000
Balance at 31 March 2020	(2,663)	(9,843)	(12,506)
Additional provisions made in 2020/21	(1,146)	(8)	(1,154)
Amounts used in 2020/21	-	3,380	3,380
Balance at 31 March 2021	(3,809)	(6,471)	(10,280)
Additional provisions made in 2021/22	(4,423)	(13,027)	(17,450)
Provisions not required written back in 2021/22	2,170	10,963	13,133
Balance at 31 March 2022	(6,062)	(8,535)	(14,597)

Provision for Appeals by Non-Domestic Rate Payers - £9.4m (£8.3m in 2020/21)

In 2021/22 the City Council retained 49% of non-domestic rates collected. The amounts of non-domestic rates collected are affected by appeals, both lodged and potential appeals that have yet to be lodged, against the rateable values of non-domestic properties. Owing to the 2017 revaluation a new set of appeals are expected across the rating list. The City Council has based its 21/22 provision on the information provided by Analyse Local and other information in the Council's possession. Previously we had been using the Government's national average of 4.7%, however now that 5 years has passed since the inception of the 2017 list, we feel that Analyse Local's detailed estimations are a more appropriate measure. On this basis the Council has made a provision of £9.4m in 2021/22.

24. Other Long-term liabilities

2020/21 £000	2021/22 £000
(13,229) Assets transferred from Hampshire County Council	(13,018)
(50,506) Service Concessions (including PFIs)	(45,278)
(8,384) Lease holder contributions	(9,092)
(7,410) Other	(7,356)
(79,529)	(74,744)

25. Unusable Reserves

31 March 2021 £000	31 March 2022 £000
(211,760) Revaluation Reserve	(272,722)
(2,836) Financial Instruments Revaluation Reserve	(1,441)
(802,438) Capital Adjustment Account	(916,389)
4,085 Financial Instruments Adjustment Account	3,908
497,410 Pensions Reserve	396,398
25,267 Collection Fund Adjustment Account	9,491
2,557 Accumulating Compensated Absences Adjustment Account	4,155
(11,981) Deferred Capital Receipts	(11,884)
(499,696) Total Unusable Reserves	(788,484)

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.

2020/21	2021/22	
£000	£000	£000
(155,319) Balance at 1 April		(211,760)
(60,911) Revaluations		(65,231)
2,939 Difference between fair value depreciation and historic cost depreciation	4,269	
1,531 Accumulated gains on assets sold or scrapped	-	
4,470 Amount written off the Capital Adjustment Account		4,269
<u>(211,760) Balance at 31 March</u>		<u>(272,722)</u>

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.

2020/21		Capital Adjustment Account	2021/22	
£000	£000		£000	£000
	(774,930)	Balance at 1 April		(802,438)
		Reversal of items relating to capital expenditure		
45,662		- Charges for depreciation, amortisation, revaluations up/down in CIES and impairment of non current assets	40,940	
56,432		- Revenue expenditure funded from capital under statute	52,568	
11,143		- (Gain) / loss on disposal	8,570	
4,460		Loan Repayments	2,020	
	<u>117,697</u>			104,098
	<u>(4,470)</u>	Adjusting amounts written out of Revaluation Reserve		<u>(4,269)</u>
	(661,703)	Net written out amount of the cost of non current		(702,609)
		Capital financing applied in the year:		
(6,110)		- Use of Capital Receipts Reserve to finance new capital expenditure	(7,766)	
(16,729)		- Use of Major Repairs Reserve to finance new capital expenditure	(26,316)	
(92,026)		- Application of grants and contributions to finance new capital expenditure	(115,652)	
(9,779)		- Statutory provision for the financing of capital investment charges against the General Fund and HRA balances	(10,311)	
(915)		- Capital receipts set aside for the repayment of debt	(1,323)	
(10,777)		- Capital expenditure charged against the General Fund and HRA balances	(34,144)	
	<u>(136,336)</u>			<u>(195,512)</u>
	<u>(4,399)</u>	Movements in the market value of investment		<u>(18,268)</u>
	<u>(802,438)</u>	Balance at 31 March		<u>(916,389)</u>

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.

2020/21	2021/22
£000	£000
427,445 Balance at 1 April	497,410
(179,235) Return on plan assets	(46,264)
222,388 Actuarial (gains) and losses on pensions assets and liabilities	(99,402)
48,417 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	66,857
(21,605) Employer's pensions contributions and direct payments to pensioners payable in the year	(22,203)
497,410 Balance at 31 March	396,398

Collection Fund Adjustment Account

The collection fund adjustment account manages the differences arising from the recognition of council tax and non-domestic rates income from council taxpayers and business rates payers in the Comprehensive Income and Expenditure Statement as it falls due, compared with the statutory accounting arrangements for paying across amounts to the General Fund from the Collection Fund.

2020/21	2021/22
£000	£000
(2,102) Balance at 1 April	25,267
27,369 Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(15,776)
25,267 Balance at 31 March	9,491

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.

2020/21	2021/22
£000	£000
(12,090) Balance at 1 April	(11,981)
1 Transfer to Capital Receipts Reserve upon receipt of cash	-
108 Transfer to Comprehensive Income and Expenditure Statement to mitigate the effect of leases being reclassified under IFRS	97
(11,981) Balance at 31 March	(11,884)

26. Notes to the Cash Flow Statement

(a) Operating Activities

The cash flows for operating activities include the following items:

2020/21	2021/22
£000	£000
5,101 Interest received	3,305
(27,253) Interest paid	(26,852)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2020/21	2021/22
£000	£000
51,251 Depreciation	47,078
(9,776) Impairment and downward valuations	(13,330)
101 Amortisation	104
- Increase/(decrease) in impairment for bad debts	-
56,243 Increase/(decrease) in creditors	46,367
(46,840) (Increase)/decrease in debtors	13,219
(209) (Increase)/decrease in inventories	192
26,812 Movement in pension liability	44,653
11,143 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	8,570
(6,176) Other non-cash items charged to the net surplus or deficit on the provision of services	(22,593)
82,549	124,260

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2020/21	2021/22
£000	£000
(4,348) Proceeds from sale of property, plant and equipment, investment property and intangible assets.	(7,003)
(90,119) Any other items for which the cash effects are investing or financing cash flows	(115,973)
(94,467)	(122,976)

(b) Investing & Financing Activities

2020/21 £000	Investing Activities	2021/22 £000
(87,275)	Purchases of property, plant and equipment, investment property and intangible assets	(160,009)
(744,158)	Purchase of short-term and long-term investments	(978,124)
(2,598)	Other payments for investing activities	(2,557)
4,330	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	7,003
721,830	Proceeds from short-term and long-term investments	923,055
96,630	Other receipts from investing activities	150,126
(11,241)	Net cash flows from investing activities	(60,506)

2020/21 £000	Financing Activities	2021/22 £000
60,000	Cash receipts of short and long term borrowing	0
(4,769)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(5,810)
(40,020)	Repayments of short and long term borrowing	(10,519)
(26,479)	Other payments for financing activities	25,806
(11,268)	Net cash flows from financing activities	9,477

(c) Reconciliation of Liabilities Arising from Financing Activities

	2020/21	Financing	Non-cash Changes			2020/21
	01-Apr	Cashflows	Acquisition	Changes in	Other Non-	31-Mar
	£000	£000	£000	Fair Value	cash	£000
Long Term						
- Borrowings	(661,205)	(45,481)	-	-	(4,597)	(711,283)
- Lease Liabilities	(869)	-	-	-	-	(869)
- On Balance Sheet PFI Liabilities	(56,281)	5,566	-	-	209	(50,506)
- Other	(27,978)	-	-	-	(176)	(28,154)
	<u>(746,333)</u>	<u>(39,915)</u>	<u>-</u>	<u>-</u>	<u>(4,564)</u>	<u>(790,812)</u>
Short Term						
- Borrowings	(44,536)	25,501	-	-	4,417	(14,618)
- Lease Liabilities	-	-	-	-	-	-
- On Balance Sheet PFI Liabilities	(5,095)	(797)	-	-	-	(5,892)
- Other	-	-	-	-	-	-
	<u>(49,631)</u>	<u>24,704</u>	<u>-</u>	<u>-</u>	<u>4,417</u>	<u>(20,510)</u>
Total Liabilities from Financing Activities	<u>(795,964)</u>	<u>(15,211)</u>	<u>-</u>	<u>-</u>	<u>(147)</u>	<u>(811,322)</u>

	2021/22	Financing	Non-cash Changes			2021/22
	01-Apr	Cashflows	Acquisition	Changes in	Other Non-	31-Mar
	£000	£000	£000	Fair Value	cash	£000
Long Term						
- Borrowings	(711,283)	10,324	-	-	(285)	(701,244)
- Lease Liabilities	(869)	-	-	-	-	(869)
- On Balance Sheet PFI Liabilities	(50,506)	5,226	-	-	2	(45,278)
- Other	(28,154)	211	-	-	(654)	(28,597)
	<u>(790,812)</u>	<u>15,761</u>	<u>-</u>	<u>-</u>	<u>(937)</u>	<u>(775,988)</u>
Short Term						
- Borrowings	(14,618)	(16)	-	-	60	(14,574)
- Lease Liabilities	-	-	-	-	-	-
- On Balance Sheet PFI Liabilities	(5,892)	584	-	-	-	(5,308)
- Other	-	-	-	-	-	-
	<u>(20,510)</u>	<u>568</u>	<u>-</u>	<u>-</u>	<u>60</u>	<u>(19,882)</u>
Total Liabilities from Financing Activities	<u>(811,322)</u>	<u>16,329</u>	<u>-</u>	<u>-</u>	<u>(877)</u>	<u>(795,870)</u>

Note 1 - The other non-cash changes include an interest accrual adjustment.

Note 2 - The net cash flows from financing activities additionally includes £25.8m (£26.5m 20/21) of collection fund entries which do not form part of the liabilities on the balance sheet.

27. Agency Services

Portsmouth City Council has one significant agency arrangement this year in relation to the administration of Covid-19 Restart Grants on behalf of the Government. The associated income and expenditure relating to the Covid-19 Restart Grants agency arrangement was £10.7m; however, in line with agency accounting these entries have been removed from income and expenditure. There are no management costs associated with administering this, as existing resources were reprioritised instead.

There is no other significant agency expenditure, except under the City Council's statutory responsibilities to collect Council Tax and Business Rates on behalf of the Department for Levelling Up, Housing and Communities, Hampshire Police & Crime Commissioner and Hampshire Fire & Rescue Authority.

28. Pooled Budgets and Joint Arrangements

The City Council is currently involved in three joint 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. This agreement was subsequently extended three more times from April 2016 to March 2021 and is currently under a roll forward arrangement until June 2022. The purpose of the arrangement is to commission a range of health and social care services for vulnerable people.

	2020/21		2021/22	
	£000	£000	£000	£000
Gross Income				
Portsmouth City Council	(423)		(438)	
Portsmouth CCG	(405)		(514)	
		<u>(828)</u>		<u>(952)</u>
Expenditure		<u>609</u>		<u>675</u>
(Surplus)/Deficit*		<u>(219)</u>		<u>(277)</u>
Council's share of the surplus		(118)		(111)

* 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.

	2020/21		2021/22	
	£000	£000	£000	£000
Gross Income				
Portsmouth City Council	(37,842)		(44,998)	
Portsmouth CCG	(25,858)		(22,051)	
		(63,700)		(67,049)
Expenditure		60,720		64,565
(Surplus)/Deficit*		(2,980)		(2,484)
Council's share of the surplus		-		-

* Note - The surplus was carried forward in accordance with the section 75 agreement by the CCG.

There are two elements of the Continuing Healthcare arrangement, the original section 75 agreement and hospital discharges. Similar to last year, this year there was additional spend on hospital discharges arising from the Covid-19 pandemic. This additional spend was incurred by the City Council for which £7m of additional funding was received from the Government via the CCG. The following tables show the split between the two elements of the Continuing Healthcare arrangement.

	2021/22		2021/22	
	£000	£000	£000	£000
	Original CHC s75		Hospital Discharges	
Gross Income				
Portsmouth City Council	-		(44,998)	
Portsmouth CCG	(18,840)		(3,211)	
		(18,840)		(48,209)
Expenditure		16,356		48,209
(Surplus)/Deficit		(2,484)		-
Council's share of the surplus		-		-

(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.

	2020/21		2021/22	
	£000	£000	£000	£000
Gross Income				
Portsmouth City Council	(6,316)		(6,499)	
Solent NHS Trust	-		(366)	
		<u>(6,316)</u>		<u>(6,865)</u>
Expenditure		<u>6,217</u>		<u>6,921</u>
(Surplus)/Deficit*		<u>(99)</u>		<u>56</u>
Council's share of the surplus		(21)		56

* Note - The surplus in 2020/21 has been carried forward in accordance with the section 75 agreement while the deficit in 2021/22 has been fully borne by the City Council in accordance with the agreement.

29. Members' allowances

The total amount of members' allowances paid in 2021/22 was £0.68m (£0.67m in 2020/21). Detailed information on members' allowances is available from the Director of Finance & Resources (Section 151 Officer) at the following address - 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.

2020/21 Number of employees		2021/22 Number of employees
85	£50,000 to £54,999	71
74	£55,000 to £59,999	68
28	£60,000 to £64,999	46
36	£65,000 to £69,999	30
20	£70,000 to £74,999	19
12	£75,000 to £79,999	19
8	£80,000 to £84,999	5
2	£85,000 to £89,999	5
1	£90,000 to £94,999	3
2	£95,000 to £99,999	1
3	£100,000 to £104,999	2
1	£105,000 to £109,999	5
-	£110,000 to £114,999	-
2	£115,000 to £119,999	1
-	£120,000 to £124,999	1
1	£125,000 to £129,999	-
2	£130,000 to £134,999	-
-	£135,000 to £139,999	-
1	£140,000 to £144,999	2
-	£145,000 to £149,999	-
-	£150,000 to £154,999	1
-	£155,000 to £159,999	-
-	£160,000 to £164,999	-
-	£165,000 to £169,999	-
-	£170,000 to £174,999	-
-	£175,000 to £179,999	-
-	£180,000 to £184,999	-
-	£185,000 to £189,999	-
1	£190,000 to £194,999	1
-	£195,000 to £199,999	-
-	£200,000 to £204,999	-
279		280

b) Senior Officer Emoluments

The following tables set out the remuneration paid to Senior Officers; whose salary in 2020/21 and 2021/22 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.

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2020/21	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)	192,359	-	192,359	35,202	227,561
City Solicitor (Monitoring Officer) (Note 1)	86,437	-	86,437	15,818	102,255
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 2020/21 this cost was £75,693 (including salary and pension costs).				
Director of Children Services & Education	130,860	-	130,860	23,947	154,807
Director of Finance & Resources (s151 Officer) (Notes 1 & 2)	142,823	-	142,823	26,137	168,960
Director of Public Health (Statutory Role)	119,333	-	119,333	17,160	136,493
Port Director	119,333	-	119,333	21,838	141,171
Solent Local Enterprise Partnership Chief Executive	133,878	-	133,878	24,500	158,378
Corporate Strategy Manager	70,569	-	70,569	12,914	83,483
Director of Corporate Services	104,333	-	104,333	19,093	123,426
Director of Culture & Regulatory Services	100,128	-	100,128	18,365	118,493
Director of Housing, Neighbourhood & Building Services (Note 1)	99,790	-	99,790	19,093	118,883
Director of Regeneration	129,746	-	129,746	24,400	154,146

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.

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2021/22	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)	194,794	-	194,794	35,647	230,441
City Solicitor (Monitoring Officer) (Note 1)	97,467	-	97,467	17,836	115,303
Director of Children Services & Education (until July 2021)	50,918	-	50,918	9,318	60,236
Director of Children Services & Education (from August 2021 until December 2021)	This post was temporarily filled via an agency and was not paid through the Council's payroll but instead via invoice. In total £49,587 was paid.				
Director of Children Services & Education (from January 2022)	29,144	-	29,144	6,132	35,276
Director of Finance & Revenues (s151 Officer) (Notes 1 & 2)	144,965	-	144,965	26,528	171,493
Director of Public Health (Statutory Role)	119,631	-	119,631	17,203	136,834
Port Director	121,123	-	121,123	22,165	143,288
Anne-Marie Mountifield - Solent Local Enterprise Partnership Chief Executive	153,386	-	153,386	28,069	181,455
Corporate Strategy Manager	75,544	-	75,544	13,824	89,368
Director of Corporate Services	105,898	-	105,898	19,379	125,277
Director of Culture & Regulatory Services	100,292	-	100,292	19,010	119,302
Director of Housing, Neighbourhood & Building Services (Note 1)	105,898	-	105,898	19,379	125,277
Director of Regeneration	141,177	-	141,177	26,491	167,668

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.

c) Exit Packages

The numbers of exit packages committed during 2021/22, 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 (£)	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
£0-£20,000	3	2	7	9	10	11	45,582	36,599
£20,001 - £40,000	-	-	-	2	-	2	-	30,121
£40,001 - £60,000	-	-	-	-	-	-	-	-
£60,001 - £80,000	1	-	2	2	3	2	197,954	139,189
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	-	-	-	-	-
£150,001 - £200,000	-	-	1	-	1	-	180,512	-
£200,001 - £250,000	-	-	-	-	-	-	-	-
£250,001 - £300,000	-	-	-	-	-	-	-	-
Total	4	2	10	13	14	15	424,048	205,909

Note - One exit package in the above figures was only partially agreed during 2021/22, with the remaining part being under dispute. Only the agreed part has been included in the note above. At year end the value of the disputed part was not known, as discussions were still ongoing the final payment was subsequently agreed and paid during 2022/23 and will be included in the 2022/23 note.

The total cost of £205,744 in the table above is included in the City Council's Comprehensive Income and Expenditure Statement for 2021/22.

31. External Audit Costs

This note discloses the fees paid to our appointed auditors EY (Ernst and Young LLP) for work carried out in 2021/22 under the Code of Audit Practice. The fees shown exclude VAT.

2020/21 £000	2021/22 £000
137 External Audit Services	129
- Other	-
137 Total paid to EY	129

No non-statutory services were provided to the City Council by EY.

Note 1: This disclosure includes both the auditors current scale fee of £115k plus fees for planned additional work of £14k (subject to agreement by Public Sector Audit Appointments (PSAA)) (£22k in 20/21). The figures do not include any additional fees charged in respect of prior year audits paid in this year, or any additional fees arising from this year's audit as these are currently unknown, or any external audit work undertaken by firms other than our appointed auditor EY, or any rebates from PSAA.

Note 2: The National Fraud Initiative (NFI) is not provided by EY so is not included in the figures above. NFI is instead now the responsibility of the National Audit Office.

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:

	2020/21			2021/22		
	Central Exp £000	Schools Budget £000	Total £000	Central Exp £000	Schools Budget £000	Total £000
Final DSG for current year before academy recoupment	1,954	161,345	163,299	2,047	173,019	175,066
Academy figure recouped for current year	-	(88,542)	(88,542)	-	(99,403)	(99,403)
Total DSG after Academy recoupment for current year	1,954	72,803	74,757	2,047	73,616	75,663
Brought forward from prior year	5,514	(2,399)	3,115	5,969	67	6,036
Carry forward to next year agreed in advance	-	-	-	-	-	-
Agreed initial budgeted distribution in current year	7,468	70,404	77,872	8,016	73,683	81,699
In year adjustments	-	363	363	-	(355)	(355)
Final budget distribution for current year	7,468	70,767	78,235	8,016	73,328	81,344
Less actual central expenditure	(1,499)	-	(1,499)	1,757	-	1,757
Less Actual ISB deployed to schools	-	(70,700)	(70,700)	-	71,133	71,133
Plus Local authority contribution for current year	-	-	-	-	-	-
Carry forward to next year	5,969	67	6,036	6,259	2,195	8,454

33. Taxation and Grant Income

The City Council credited the following tax, grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2021/22:

	2020/21 £000	2021/22 £000
Credited to Services		
Rent Allowance Subsidy	(41,143)	(37,279)
HRA Rent Rebates Subsidy	(33,940)	(32,509)
Public Health Grant	(17,898)	(18,019)
Dedicated Schools Grant	(72,198)	(72,883)
Other grants	(51,996)	(47,467)
	<u>(217,175)</u>	<u>(208,157)</u>
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(11,670)	(11,734)
Retained Non Domestic Rates	(45,537)	(47,162)
Retained Non Domestic Rates (Top Up Grant)/Tariff	(6,952)	(6,952)
PFI Grant	(11,521)	(11,521)
Other Grants	(34,128)	(23,782)
Income from Council Tax	(82,528)	(87,850)
Capital Grants and Contributions	(59,758)	(63,600)
	<u>(252,094)</u>	<u>(252,601)</u>

The City Council has received several 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:

	2020/21 £000	2021/22 £000
Capital Grants Receipts in Advance		
Government Grants	(62,249)	(88,405)
Other Grants & Contributions	(1,470)	(10,526)
	<u>(63,719)</u>	<u>(98,931)</u>

Revenue grants receipts in advance for 2021/22 were £30.3m (2020/21 £33.8m).

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.

United Kingdom Government

The UK 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 most of the City Council's 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 £445,776 to organisations and received £709,165 from organisations where members had been appointed by the City Council to hold positions on the governing body.

During 2021/22 £12,731,588 was paid to companies in which Council Members had an interest. This included £11,620,165 paid to the Hampshire Police and Crime Commissioner, consisting of a precept of £11,616,836, a payment from the Workplace Sustainable Travel Fund to promote air quality of £3,304, and a £25 payment relating to the Criminal Records Office. £1,051,164 was paid to Portsmouth College, mostly to help fund the Colleges activities. £18,373 was paid to Highbury Area Community Association, mainly as a contribution to staff costs. £15,351 was paid to Hooper Services for the maintenance of cleaning equipment and appliances. The Moving on Project Portsmouth (MOPP) were paid a one-off grant of £5,000. The Pure Ground Coffee Shop Community Interest Company were paid Covid 19 Isolation Grants of £12,235. £9,300 was paid to Unloc Learning Limited for schools youth forums.

£1,726,444 was received from the Police and Crime Commissioner, largely for work to alleviate domestic abuse. £29,687 was received from Portsmouth College, mostly for services provided by the Council and Not in Employment, Education or Training (NEET) prevention. £19,294 was received from Highbury Area Community Association, largely consisting of recharges for staff time.

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 12 maintained schools (excluding nurseries). Non-current assets with a net book value of £64.1m 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 2021/22 £30,892 was paid to Hampshire Chamber of Commerce and £31,505 was received from Maritime UK. 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 £180,000 in 2021/22 (£200,000 in 2020/21).

The following amounts were raised in year for receivables and payables in respect of other related public sector bodies:

	Paid £	Received £	Net Total £
Gosport Borough Council	15,368	(1,460,707)	(1,445,339)
Isle of Wight Council	8,535	(168,867)	(160,332)

Payments were made to Gosport Borough Council for printing services. Payments were received from Gosport Borough Council for several shared services including senior management.

Payments were made to the Isle of Wight Council for adoption services and special education. Payments were received from the Isle of Wight Council for fostering, audit services, and shared management.

Joint working arrangements

Since 2016/17, the City Council has an arrangement with the Isle of Wight Council for a shared Chief Financial Officer and Section 151 Officer.

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 sharing several third-tier roles.

The directors involved do influence spending decisions at each authority however, governance arrangements and their independent and professional status ensure that the relationships are not compromised.

Entities Controlled or Significantly Influenced by the City Council

Portsmouth City Council trades extensively with its subsidiary companies, Portico Shipping Limited and Ravelin Group. The City Council appoints directors to its subsidiary companies and HCB Holdings Ltd. The Director of Finance and Resources, or the Deputy Director of Finance are a director of all 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

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 £3.3m in Portico in 2021/22.

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 £5.2m.

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.

Twelve loans with an outstanding balance of £14.5m have been advanced to Portico by the City Council. These loans carry interest between 3.09% and 4.81% per annum and mature by 2038.

The City Council's exposure to losses arising from its ownership of Portico is limited to £20.3m, 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 £2.0m* of income from Portico during 2021/22 (£3.3m in 2020/21); primarily from lease rentals, harbour dues and loan interest.

A copy of Portico's company 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:

2020/21	2021/22
£000	£000
15,672 Gross Expenditure	17,522
(15,752) Gross Income	(17,587)
(80) Net (Income) / Loss	(65)

* The calculation of the income generated from Portico has been calculated differently in 2021/22 to exclude the repayment of principal on loan instalments)

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 the 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 due when Hampshire Community Bnk obtains regulatory approval to begin commercial banking activities. £8.25m has been advanced to Hampshire Community Bnk, prior to them obtaining regulatory approval, to support their cash flow position.

Victory Energy Supply Limited

The City Council acquired all the issued share capital and 75% of the voting rights in September 2017. The company aimed to provide energy to Portsmouth and the surrounding areas when the necessary regulatory approvals were obtained. At the 31st March 2021 the City Council had provided Victory Energy Supply Limited with £3.4m of services. This was reflected as a short-term investment in the Council's accounts. Following the Council's decision to dispose of its interests in Victory Energy Supply Limited, the costs of services provided to Victory Energy Supply Limited were fully written off in 2020/21. Victory Energy Supply was wound up on 20th April 2021.

Ravelin Group Limited

The Council has all the issued share capital and all the voting rights in Ravelin Group Limited. Ravelin Group has a wholly owned subsidiary, Ravelin Housing Limited, which aims to provide additional housing in Portsmouth using funds borrowed from Portsmouth City Council. The City Council has provided Ravelin Housing Limited with £0.6m of services and loaned them £0.6m giving a combined amount owing from Ravelin Housing Limited to the City Council of £1.2m.

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

2020/21		2021/22
£000		£000
798,680	Opening capital financing requirement	825,136
106,391	Long Term Assets	174,713
56,432	Revenue expenditure funded from capital under statute	52,568
162,823	Capital Investment	227,281
961,503	Sources of finance	1,052,417
(7,025)	Capital receipts (including capital receipts set aside to repay debt)	(9,089)
(92,026)	Other Grants & contributions	(115,652)
	Sums set aside from revenue:	
(10,777)	- Direct revenue contributions	(34,144)
(16,729)	- Use of Major Repairs Reserve	(26,316)
(9,779)	- Minimum Revenue Provision	(10,311)
(31)	Other Adjustments	-
(136,367)		(195,512)
825,136	Closing capital financing requirement	856,905
	The capital financing requirement is met by the following items in the balance sheet:	
1,821,749	Fixed assets including equity investments	2,023,567
9,924	Advances to subsidiaries	14,508
(208,258)	Revaluation Reserve	(270,622)
(802,438)	Capital Adjustment Account	(916,389)
4,159	Other (including Housing General Fund mortgages and advances by Local Enterprise Partnership (LEP))	5,841
825,136		856,905

The capital financing requirement increased by £31.8m in 2021/22 for the following reasons:

2020/21		2021/22
£000		£000
37,150	Increase in underlying need to borrow	43,403
(10,694)	Provision for the repayment of debt	(11,634)
26,456	Increase in Capital Financing Requirement	31,769

37. Leases

City Council as Lessee

Finance Leases

The City Council has several buildings and port equipment under finance leases with a combined value of £1.0m. 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 2021 £000	31 March 2022 £000
No later than one year	189	189
Later than one year and not more than 5 years	755	755
Later than five years	11,047	10,858
	11,991	11,803

The net present value of the minimum lease payments is £6.3m.

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 2020/21 and 2021/22 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 the 31st March 2022 the minimum payments expected to be received under non-cancellable sub-leases was £0.5m (£0.4m at the 31st March 2021).

Operating Leases

The City Council has acquired several 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
	2021	2022
	£000	£000
Not more than one year	1,565	1,406
Later than one year but not later than five years	3,016	3,344
Later than 5 years	32,340	30,367
	36,921	35,116

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
	2021	2022
	£000	£000
Minimum lease payments	36,921	35,116
Contingent rents	26,325	25,338
	63,246	60,454

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 2021 £000	31 March 2022 £000
Finance lease debtor (net present value of minimum lease payments):		
Current	1,270	1,245
Non current	15,096	14,905
Unguaranteed residual value of property	103	103
Gross investment in lease	16,469	16,253

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 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000
	Not later than one year	162	155	1,255
Later than one year and not later than five years	733	673	4,985	4,885
Later than five years	10,847	10,809	35,090	34,071
	11,742	11,636	41,330	40,196

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 2020/21 or 2021/22.

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 2021	31 March 2022
	£000	£000
Not later than one year	25,152	25,659
Later than one year and not later than five years	85,780	89,251
Later than five years	292,683	287,751
	403,615	402,662

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 2019/20 and 2020/21 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 Councils 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 2021	-	5,948	162,042	12,535	180,525
Opening Adjustments				(1)	(1)
Revised as at 1st April 2021	-	5,948	162,042	12,534	180,524
Additions	-	-	-	-	-
Revaluation increases/(decreases) to CIES and/or Revaluation Reserve	-	(1,910)	-	-	(1,910)
Disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
At 31st March 2022	-	4,038	162,042	12,534	178,614
Depreciation and Impairment					
At 1st April 2021	-	(502)	(39,319)	(1,868)	(41,689)
Opening Adjustments					-
Revised as at 1st April 2021	-	(502)	(39,319)	(1,868)	(41,689)
Depreciation Charge in Year	-	(108)	(3,688)	(934)	(4,730)
Depreciation written out on revaluation	-	610	-	-	610
Impairment losses/(reversals) to CIES and/or Revaluation Reserve	-	-	-	-	-
Disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
At 31st March 2022	-	-	(43,008)	(2,802)	(45,809)
Net Book Value					
At 1st April 2021	-	5,446	122,723	10,667	138,836
At 31st March 2022	-	4,038	119,035	9,732	132,805

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

	Liability as at 31 March 2021	Payments	Liability as at 31 March 2022
	£000	£000	£000
Milton Cross School	(9,677)	417	(9,260)
Learning Disability Facilities	(3,389)	149	(3,240)
Highways Maintenance	(39,126)	4,079	(35,047)
Waste Disposal	(4,089)	1,165	(2,924)
Total	(56,281)	5,810	(50,471)

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	5,308	4,622	23,465	33,395	2,995	36,390
Within 2 to 5 years	16,899	14,554	84,834	116,287	21,146	137,433
Within 6 to 10	26,078	6,055	60,777	92,910	6,208	99,118
Within 11 to 15	2,186	151	-	2,337	-	2,337
	50,471	25,382	169,076	244,929	30,349	275,278

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

The funded nature of the LGPS requires the 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 must 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.

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:

	2020/21 £000	2021/22 £000
Comprehensive Income and Expenditure Statement:		
Cost of services		
Current service cost	38,446	56,444
Past service cost	320	110
Settlements/Curtailments	-	-
Financing and Investment Income and Expenditure		
Net Interest Expense	9,651	10,301
Total Post Employment Benefit charged to the Surplus of deficit on the Provision of services	48,417	66,855
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets in (excess) / below that recognised in net interest	(179,235)	(46,264)
Actuarial (gains) / losses due to changes in financial assumptions	234,770	(90,025)
Actuarial (gains) / losses due to changes in demographic assumptions	76	(13,963)
Actuarial (gains) / losses due to liability experience	(12,458)	4,586
Total (gains) / losses from reclassification	-	-
	43,153	(145,666)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	91,570	(78,811)
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	48,417	66,855
Actual amount charged against the General Fund and HRA Balances for pensions in the year:		
Employers' contributions payable to scheme	20,278	20,934
Retirement benefits payable to pensioners	1,327	1,268
	21,605	22,202

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 2022 is a loss of £49.8m (2020/21 £195.4m).

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:

	2020/21 £000	2021/22 £000
Present value of funded liabilities (LGPS):	(1,392,791)	(1,355,461)
Present value of funded liabilities (Pilot Pension Scheme)	(4,930)	(4,563)
Present value of unfunded liabilities (LGPS and Teachers):	(15,955)	(14,457)
Fair value of assets (LGPS):	912,622	974,591
Fair value of assets (Pilot Pension Scheme)	3,475	3,324
Surplus/(deficit) in the scheme:*	<u>(497,579)</u>	<u>(396,566)</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 (£0.17m), 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 £396.6m (prior year £497.6m) 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 schemes' actuary (AON Hewitt Limited).

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

2020/21	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	(1,129,541)	(3,610)	(10,018)	(6,044)	(1,149,213)
Current service cost	(38,400)	(46)	-	-	(38,446)
Interest Expense	(25,740)	(68)	(220)	(140)	(26,168)
Contributions by scheme participants	(6,980)	(11)	-	-	(6,991)
Actuarial gains and (losses) - Financial Assumptions	(233,460)	(230)	(720)	(360)	(234,770)
Actuarial gains and (losses) - Demographic Assumptions	-	(76)	-	-	(76)
Actuarial gains and (losses) - Liability Experience	13,420	(1,182)	140	80	12,458
Benefits paid	28,230	293	800	527	29,850
Past service costs including curtailments	(320)	-	-	-	(320)
Net Increase in assets from reclassification	-	-	-	-	-
Settlements	-	-	-	-	-
Closing balance at 31 March	<u>(1,392,791)</u>	<u>(4,930)</u>	<u>(10,018)</u>	<u>(5,937)</u>	<u>(1,413,676)</u>

2021/22	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	(1,392,791)	(4,930)	(10,018)	(5,937)	(1,413,676)
Current service cost	(56,400)	(44)	-	-	(56,444)
Interest Expense	(29,000)	(65)	(210)	(120)	(29,395)
Contributions by scheme participants	(7,210)	(11)	-	-	(7,221)
Actuarial gains and (losses) - Financial Assumptions	89,460	215	240	110	90,025
Actuarial gains and (losses) - Demographic Assumptions	13,690	3	160	110	13,963
Actuarial gains and (losses) - Liability Experience	(4,500)	(26)	(40)	(20)	(4,586)
Benefits paid	31,400	295	771	497	32,963
Past service costs including curtailments	(110)	-	-	-	(110)
Net Increase in assets from reclassification	-	-	-	-	-
Settlements	-	-	-	-	-
Closing balance at 31 March	<u>(1,355,461)</u>	<u>(4,563)</u>	<u>(9,097)</u>	<u>(5,360)</u>	<u>(1,374,481)</u>

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

2020/21	LGPS Pilot Pension Scheme		Total
	£000	£000	£000
Opening balance at 1 April	718,954	2,645	721,599
Interest Income	16,470	47	16,517
Remeasurement gains / (losses)	178,200	1,035	179,235
Contributions by employer	20,248	30	20,278
Contributions by participants	6,980	11	6,991
Net benefits paid out	(28,230)	(293)	(28,523)
Settlements	-	-	-
Administration costs incurred	-	-	-
Net increase in assets from disposals / acquisitions	-	-	-
Net increase in assets from re-classification	-	-	-
Closing balance at 31 March	912,622	3,475	916,097

2021/22	LGPS Pilot Pension Scheme		Total
	£000	£000	£000
Opening balance at 1 April	912,622	3,475	916,097
Interest Income	19,050	44	19,094
Remeasurement gains / (losses)	46,230	34	46,264
Contributions by employer	20,879	55	20,934
Contributions by participants	7,210	11	7,221
Net benefits paid out	(31,400)	(295)	(31,695)
Settlements	-	-	-
Administration costs incurred	-	-	-
Net increase in assets from disposals / acquisitions	-	-	-
Net increase in assets from re-classification	-	-	-
Closing balance at 31 March	974,591	3,324	977,915

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 £65.3m (£194.7m in 2020/21) for the LGPS and £0.078m (£1.082m 2020/21) for the PNPf.

LGPS assets comprised:

Asset Type:	Value at 31 March 2021		Value at 31 March 2022	
	%	£'000s	%	£'000s
Cash	1.40%		0.90%	
Cash equivalents	0.00%		0.00%	
Equities	57.00%		55.70%	
Bonds - Corporate	17.30%		18.00%	
Bonds - Government Gilts	0.00%		0.00%	
Property	6.10%		6.90%	
Private equity	0.00%		0.00%	
Other investment funds	18.20%		18.50%	
Total	100.00%		100.00%	

Note - The Actuary has not provided the values for each of the LGPS asset types.

PNPF assets comprised:

Asset Type:	Value at 31 March 2021		Value at 31 March 2022	
	%	£'000s	%	£'000s
Cash	13.70%	452	3.50%	109
Cash equivalents	9.70%	320	17.70%	550
Equities	0.00%	-	0.00%	-
Bonds - Corporate	10.50%	347	9.90%	308
Bonds - Government Gilts	27.00%	892	27.80%	864
Property	0.00%	-	0.00%	-
Private equity	0.00%	-	0.00%	-
Other investment funds	39.10%	1,291	41.10%	1,278
Total	100.00%	3,302	100.00%	3,109

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. The estimates for the City Council fund are based on the latest triennial valuation of the LGPS as at the 31st March 2019 and the latest valuation of the PNPF as at the 31st December 2019. These calculations have been updated to 31 March 2022 by the fund's actuary, Aon Hewitt Limited, allowing for the IAS 19 financial and demographic assumptions.

The principal assumptions used by the actuary are shown below:

2020/21	Funded LGPS	Funded Pilots Pension Scheme	Unfunded LGPS	Unfunded Teachers
Mortality assumptions:				
Longevity at 65 for current pensioners (years):				
Men	23.1	21.4	23.1	23.1
Women	25.5	23.4	25.5	25.5
Longevity at 65 for future pensioners (years):				
Men	24.8	22.5	0.0	0.0
Women	27.3	24.6	0.0	0.0
Rate of inflation (CPI)	2.7%	2.0%	2.7%	2.7%
Rate of increase in salaries	3.7%	2.0%	0.0%	0.0%
Rate of increase in pensions	2.7%	2.0%	2.7%	2.7%
Rate for discounting scheme liabilities	2.1%	1.4%	2.1%	2.1%

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2021/22	Funded LGPS	Funded Pilots Pension Scheme	Unfunded LGPS	Unfunded Teachers
Mortality assumptions:				
Longevity at 65 for current pensioners (years):				
Men	22.9	21.6	22.9	22.9
Women	25.4	24.0	25.4	25.4
Longevity at 65 for future pensioners (years):				
Men	24.7	22.6	0.0	0.0
Women	27.1	25.2	0.0	0.0
Rate of inflation (CPI)	3.0%	2.4%	3.0%	3.0%
Rate of increase in salaries	4.0%	2.4%	0.0%	0.0%
Rate of increase in pensions	3.0%	2.4%	3.0%	3.0%
Rate for discounting scheme liabilities	2.7%	2.0%	2.7%	2.7%

Note - Longevity rates for future pensioners are not provided by the actuary for the unfunded schemes.

Sensitivity Analysis:

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions shown in the tables above. The sensitivity analyses, below, have been determined based on reasonable possible changes in the assumptions occurring at the end of the reporting period and assumes for each change that only the assumptions analysed change while all the other assumptions remain the same. In practice, this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e., on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

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%)	1327.04	1383.96	50.45	54.16
Rate of salaries (increase or decrease by 0.1%)	1358.22	1352.8	52.28	52.28
Rate of increases to pensions in payment (increase or decrease by 0.1%)	1381.26	1329.76	54.16	50.45
Post retirement mortality assumption (increase or decrease in 1 year)	1309.42	1401.6	50.24	54.32

Note - Assumes a baseline figure of £1355.51m present value of defined benefit obligation, or £52.28m 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 £270,000.

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 £100,000.

Average life expectancy - if this were to increase by 1 year the defined benefit obligation would increase by around 5% or £220,000.

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 2020/21).

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 at least equal to the value of the funding target (past service liabilities). At the 2019 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 over a period of up to 19 years from the date of the last triennial valuation. This included setting higher service contribution rates along with additional annual shortfall contributions over a range of different recovery periods. Funding levels will 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. Future funding levels will be determined at the next triennial valuation of the fund, and this 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 2019) 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. Future funding levels will be determined at the next triennial valuation of the fund, and this is due to be completed as at the 31 December 2022 with the results expected later in 2023.

The total contributions expected to be made by the City Council in the year to 31 March 2023 are £21.45m (£20.14m in the year to 31 March 2022) for the LGPS and £26,184 (£12,660 in the year to 31 March 2022) 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 Teachers' Pensions (details of the scheme can be found at the [Teacher's Pensions website \(https://www.teacherspensions.co.uk/\)](https://www.teacherspensions.co.uk/) on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the City Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer scheme and technically is 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. Valuations of the notional fund are undertaken every four years.

The Scheme has more than 11,000 participating employers (including local authorities, further and higher education establishments, independent schools, academy schools and free schools) and consequently the City Council is not able to identify its share of the underlying financial position and/or performance of the Scheme with sufficient reliability for accounting purposes. The Scheme is therefore accounted for on the same basis as a defined contribution scheme.

In 2021/22, the City Council paid £4.4m (2020/21 £5.1m) to Teachers' Pensions in respect of teachers' retirement benefits. There were £0.3m (2020/21 £0m) of contributions remaining payable at the 31st March 2022, which were paid in April 2022.

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).

The City Council is not liable to the Scheme for any other entities' obligations under the plan.

41. Exceptional items

There were no exceptional items in 2021/22.

42. Contingent Liabilities

There were no contingent liabilities in 2021/22 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.

2020/21 £000	Council Tax	2021/22 £000
	Income	
(102,517)	Council Tax	(109,003)
	Transfers from the General Fund	
(25)	Council Tax write ons	(23)
	Contributions received towards the estimated (deficit)	
0	Council Tax - Hampshire Police and Crime Commissioner	(119)
0	Council Tax - Hampshire Fire and Rescue Authority	(39)
0	Council Tax - Portsmouth City Council	(820)
(102,542)		(110,004)
	Expenditure	
	Distribution of estimated Council Tax Surplus	
79	Council Tax - Hampshire Police and Crime Commissioner	-
26	Council Tax - Hampshire Fire and Rescue Authority	-
546	Council Tax - Portsmouth City Council	-
651		-
	Precepts	
12,209	Council Tax - Hampshire Police and Crime Commissioner	12,792
3,987	Council Tax - Hampshire Fire & Rescue Authority	3,978
83,855	Council Tax - Portsmouth City Council	86,137
100,051		102,907
	Bad and Doubtful Debts	
1,012	Council Tax - amounts written off	619
3,062	Council Tax - change in provision	3,455
104,776		106,981
2,234	(Surplus) / deficit for the Year	(3,023)
(410)	(Surplus) / Deficit brought forward 1 April	1,824
2,234	(Surplus) / Deficit for the Year	(3,023)
1,824	Council Tax balance as at 31 March - (Surplus) / Deficit	(1,199)
	Apportioned :	
222	Hampshire Police Authority	(149)
73	Hampshire Fire & Rescue Authority	(46)
1,529	Portsmouth City Council	(1,004)
1,824		(1,199)

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2020/21 £000	Business Rates / NNDR	2021/22 £000
	Income	
(41,797)	Income from Business Ratepayers (inc. Appeals Provision offset)	(67,998)
2,147	Less: Increase / (Decrease) Provision for Losses on Appeals	2,174
(39,650)		(65,824)
	Contributions received towards estimated Deficit / (Surplus)	
(60)	DLUHC	(23,335)
1,287	Portsmouth City Council	(22,553)
12	Hampshire Fire & Rescue Authority	(464)
1,239		(46,352)
(38,411)		(112,176)
	Business Rates Apportioned to:	
42,530	DLUHC	41,877
41,679	Portsmouth City Council	41,039
851	Hampshire Fire & Rescue Authority	838
507	DCLG - Transitional Surcharge / (Relief)	251
273	Cost of Collection	271
-	Interest Paid on Overpayments Refunded	-
	Bad and Doubtful Debts	
788	NNDR - Amounts written off	281
2,431	NNDR - Increase / (Decrease) in Provision	265
89,059		84,822
50,648	(Surplus) / Deficit for the year	(27,354)
(1,876)	(Surplus) / Deficit b/fwd 1 April	48,772
50,648	(Surplus) / Deficit for the Year	(27,354)
48,772	Non Domestic Rates as at 31st March - (Surplus) / Deficit	21,418
	Apportioned:	
24,545	DLUHC	10,709
23,739	Portsmouth City Council	10,495
488	Hampshire Fire and Rescue Authority	214
48,772		21,418
50,596	Total Collection Fund (Surplus) / Deficit	20,219

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	15,758	6/9	10,505
B	23,814	7/9	18,522
C	18,266	8/9	16,236
D	5,302	9/9	5,302
E	3,216	11/9	3,931
F	1,494	13/9	2,158
G	583	15/9	972
H	28	18/9	56
	68,461		57,682
Less: adjustment for non-collection			(1,846)
Add: MoD dwellings contribution			652
2021/22 tax base			56,488

Multiplying the 2021/22 tax base of 56,487.9 by the standard council tax of £1,821.76, gives the total precepts on the Collection Fund of £102.907m.

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%

The total non-domestic business rates rateable value at the 31st March 2022 was £215.94m.

The non-domestic business rates multiplier for the year was 49.9p for small businesses and 51.2p for other business properties.

After the granting of various reliefs and exemptions the net rates due totalled £64.8m.

In closing the 2021/22 accounts it was deemed necessary to make a provision of £19m 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 £1.2m as at the 31st March 2022. The Council Tax side of the Collection Fund was estimated to result in a surplus of £1.454m in January 2022. The worsening on outturn is attributable to a sustained decrease in the in-year collection rate and by extension the level of bad debt ultimately expected to materialise.

Business Rates

The Business Rates part of the Collection Fund has realised a deficit of £21.42m as at the 31st March 2022, compared with an estimated Collection Fund deficit of £30.00m in January 2021. The improvement on outturn is primarily attributable to a relief scheme expected to begin in 2021/22 not actually commencing until 2022/23. This decrease in deficit is however offset by a corresponding decrease in the level of funding the Council will receive to fund the relief.

This improvement in the Collection Fund will be distributed across the precepting bodies in the financial year 2022/23.

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.

2020/21	2021/22
£000	£000
Expenditure	
19,924 Repairs & Maintenance	23,881
Supervision & Management:	
17,134 General	17,871
15,713 Special Services	17,955
1,165 Rent rates taxes & other charges	1,021
Depreciation (and Impairments) of Non-current Assets:	
178 - Dwellings	(3,180)
3,184 - Other Assets	9,682
101 Amortisation of Intangible Assets	204
28 Amortisation of Revenue Expenditure Funded from Capital Under	47
43 Debt management costs	37
1,000 Movement in allowance for bad debts	200
- Sums directed by the secretary of state	-
58,470 Total Expenditure	67,718
Income	
(65,704) Dwelling rents (gross)	(66,437)
(2,902) Non-dwelling rents	(2,948)
(12,331) Service charges (Tenants charges for services)	(12,959)
(80,937) Gross rents	(82,344)
(1,892) Leaseholders charges for services & facilities	(1,773)
(904) Other Charges for Services & Facilities	(1,118)
(623) Contributions toward expenditure	(480)
(84,356) Total Income	(85,715)
(25,886) Net Cost of HRA Services as included in the CIES	(17,997)
306 HRA's share of corporate & democratic core	228
(25,580) Net Cost of HRA Services as included in the CIES	(17,769)
(2,246) (Gain) or loss on the sale of HRA non-current assets	(3,068)
5,898 Interest payable & similar charges	5,674
(632) Interest and investment income	(241)
1,685 Pensions interest cost and expected return on pensions assets	1,809
0 Income, expenditure changes in the fair value of investment	0
(3,228) Capital grants and contributions receivable	(7,652)
(24,103) Surplus / Deficit for the year on HRA services	(21,247)

Movement on the HRA Statement

2020/21 £000	2021/22 £000
(20,093) Balance on the HRA at the end of the previous year	(23,388)
(24,103) (Surplus) or deficit for the year on the HRA Income & expenditure account	(21,247)
20,808 Adjustments between accounting basis & funding basis under statute	19,739
(3,295) Net (Increase) or decrease before transfers to or from reserves	(1,508)
0 Transfers to / from reserves	0
0 Capital Expenditure charged to Revenue	291
(3,295) Increase / decrease in HRA in year	(1,217)
(23,388) Balance on the HRA at the end of the current year	(24,605)

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; £11.9m (£22m) of net upward revaluations were charged to Income & Expenditure in 2021/22. The credit of £11.9m (£22m) in the 2021/22 Income and Expenditure Account is reversed out by a debit in the Movement on the Housing Revenue Account Reserves Statement.
- Retirement benefits are charged as amounts payable to the pension funds and pensioners, rather than as future benefits are earned.

The Housing Revenue Account balance compares the 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

2020/21	2021/22
£000	£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	
22,498 Charges for depreciation and impairment of non-current assets	19,455
- Charges for revaluations of investment properties	-
- Charges for amortisation of intangible non-current assets	-
2,246 Net gain/loss on disposal of non current assets	3,068
(28) REFCUS written down	(47)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:	
- Sums set aside from revenue to fund capital expenditure	-
Other Adjustments	
3,228 Capital grants and contributions credited to the HRA	7,652
(2,704) Reversal of Major Repairs Allowance credited to the HRA	(2,798)
(7,542) Reversal of items relating to retirement benefits debited or credited to the HRA	(10,489)
3,088 Employer's pension contributions and direct payments to pensioners payable in the year	3,214
(59) Transfer from accumulated absences	(392)
- Reversal of finance leases	-
81 Other adjustments	76
20,808	19,739

H2. Gross Rent Income

This is the gross rent income for the year after allowance is made for voids etc. During the year, 2.14% of lettable dwellings were vacant. In 2020/21 the figure was 1.34%. The average dwelling rent was £90.14 per week in 2021/22 (£87.82 per week in 2020/21), an increase of £2.32 over the previous year. The amount of arrears as at the end of the financial year was £1.8million (£2.6million in 2020/21).

H3. Depreciation of non-current assets

The depreciation charge is broken down as follows:

	2020/21	2021/22
	£000	£000
Council houses	23,258	23,363
Other assets	2,603	2,693
Intangible Assets	100	104
	25,961	26,160

H4. Revaluations Down & Impairments

Revaluations & 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. The table below shows the revaluation and impairment charges to the HRA Income and Expenditure Statement.

	2020/21	2021/22
	£000	£000
Council Houses	(23,080)	(26,543)
Other Assets	582	6,988
Intangible Assets	-	99
	(22,498)	(19,455)

Note - The figures in the table above are part of the wider revaluation & impairment figure which also includes revaluations up.

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 on the 1 April 2001. Movements on the Reserve during the current financial year were:

	2020/21		Repayment of borrowing		2021/22
	Total £000	Houses Other £000	£000	£000	Total £000
Balance at 1 April 2021	(19,175)	(25,704)	-	-	(25,704)
Transferred from HRA	(23,258)	(23,363)	-	-	(23,363)
Transferred to HRA	-	-	-	-	-
Financing of capital expenditure	16,729	26,316	-	-	26,316
Balance at 31 March 2022	(25,704)	(22,751)	-	-	(22,751)

H8. Housing stock

The City Council was responsible for managing an average of 14,773 dwellings (excluding mobile homes) during 2021/22. The stock as defined by the Housing Revenue Account Subsidy regulations as at the 31st March 2022 was as follows:

	No. of dwellings	
	2020/21	2021/22
Houses	4,318	4,271
Flats	10,335	10,502
	14,653	14,773
Mobile homes	-	-
	14,653	14,773

The change in stock can be summarised as follows:

	No. of Dwellings	
	2020/21	2021/22
Stock at 1 April	14,543	14,653
Mobile Homes no longer within HRA	-	-
Sales	(37)	(73)
Bedsit conversions	-	0
Demolitions	-	-
Repurchases	123	170
Additions	2	7
New builds	23	16
Change in use	(1)	0
Stock at 31 March	14,653	14,773

H9. Balance sheet value of land, houses and property held within the HRA

21/22		Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure Assets *	Community Assets	Other Land & Buildings - Surplus	Intangible Assets	Asset Under Construction	Total
	Cost or Valuation									
	At 01/04/2021	662,927	40,147	7,170		652	1,580	1,046	11,418	724,940
	Opening Adjustments	-	-	-		-	-	-	-	-
	Revised 1st April 2021	662,927	40,147	7,170		652	1,580	1,046	11,418	724,940
	Appropriations to/from HRA	-	-	-		-	-	-	-	-
	Additions (including to WIP)	17,261	-	-		-	-	-	46,664	63,925
	Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	3,374	722	(41)		-	(881)	(100)	-	3,074
	Disposals	(4,300)	-	-		-	-	-	-	(4,300)
	Reclassifications	25,658	9,413	131		-	-	100	(35,301)	-
	Reclassification from WIP impair no asset	-	-	42		-	-	-	(42)	-
	Transfers in Class	-	-	-		-	-	-	-	-
	Reclassification from HRA WIP to GF WIP	-	-	-		-	-	-	(51)	(51)
	At 31/03/2022	704,920	50,282	7,302		652	699	1,046	22,687	787,588
	Depreciation and Impairment									
	At 01/04/2021	-	(4,269)	(6,231)		-	-	(788)	-	(11,288)
	Opening Adjustments	-	-	-		-	-	-	-	-
	Revised 1st April 2021	-	(4,269)	(6,231)		-	-	(788)	-	(11,288)
	Appropriations to/from HRA	-	-	-		-	-	-	-	-
	Depreciation Charge in Year	(23,363)	(2,421)	(271)		-	-	(104)	-	(26,159)
	Depreciation written out on revaluation	23,211	3,862	-		-	-	-	-	27,073
	Impairment losses/(reversals) to SDPS and/or Revaluation Reserve	-	-	-		-	-	-	-	-
	Disposals	152	-	-		-	-	-	-	152
	Transfers in Class	-	-	-		-	-	-	-	-
	Reclassifications from WIP - Impair No Asset - Phase 1 & Phase 2	-	-	(42)		-	-	-	42	-
	Derecognition of new assets with no value	-	-	42		-	-	-	(42)	-
	Adjustments	-	-	-		-	-	-	-	-
	At 31/03/2022	-	(2,828)	(6,502)		-	-	(692)	-	(10,222)
	Net Book Value									
	At 01/04/2021	662,927	35,878	939		652	1,580	258	11,418	713,652
	At 31/03/2022	704,920	47,454	800		652	699	154	22,687	777,366

*Note - In accordance with the Temporary Relief offered by CIPFA's update to the Code of Practice on Local Authority Accounting, PPE-Infrastructure assets have been shown on a net book value basis so does not separately show the gross cost and accumulated depreciation. This presentation is because historical reporting practices and resultant information deficits mean that reporting the figures on a gross basis would not faithfully represent the asset position to users of the financial statements.

The City Council has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

There is no impact of not showing the gross figures on the financial statements as the balance sheet shows all asset categories on a net basis, with gross reporting only being in a memorandum note. Infrastructure assets are by their very nature not tradeable/saleable assets or have an alternative use and are held at cost not revalued amount. The gross cost would simply be the original cost of the asset while the net cost represents this gross figure less depreciation to date. Depreciation is calculated on the current net value not the gross value (using carrying value and remaining life).

The City Council has determined in accordance with Regulation [30M England or 24L Wales] of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

To effectively show PPE-Infrastructure assets on a net basis, the infrastructure asset entries have been removed from Note H9 Balance Sheet Value of Property Held Within the HRA and are instead shown separately in a Movement in Infrastructure assets note (see below).

Movement on Balances	2020/21 £000	2021/22 £000
Net Book Value (Modified Historic Cost)		
At 1st April	37	36
Additions	-	-
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve		-
Disposals	-	-
Reclassifications from Assets Under Construction		-
Reclassifications between categories	-	-
Depreciation Charge in Year	(1)	(1)
Depreciation written out on revaluation		-
At 31st March	36	35

H10. Vacant possession value of dwellings within the HRA

The vacant possession value of dwellings held within the HRA amounts to £2,128m as at the 1st April 2022.

The substantial difference between this figure and the net book value figure of £702m 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	£000
Borrowing	-	25,534	43	25,577
Usable capital receipts	-	7,563	-	7,563
Revenue contributions	-	-	291	291
Major Repairs Reserve	-	26,165	151	26,316
Grants and contributions	-	4,226	-	4,226
	-	63,488	485	63,973

H12. Bad Debt Provision

	31 March 2021	Additions and reductions	Write-offs	31 March 2022
	£000	£000	£000	£000
Housing rents provision	(2,860)	(204)	78	(2,986)
Sale of flats provision	-	-	-	-
Provision for other HRA bad debts	(1)	(45)	-	(46)
	(2,861)	(249)	78	(3,032)

Auditor's Report

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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.

Amortised Cost

Some assets and liabilities are be carried at 'amortised cost' where part of their carrying amount in the Balance Sheet will either be written down or written up via the surplus or deficit on the provision of services over the term of the financial instrument.

Amortisation reflects such things as the fact that an authority might have incurred transaction costs or bought an investment other than at par and is required to spread the effect over the life of the financial instrument.

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 was 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.

Fair Value through Profit and Loss

Some investments are tradable and are classed as fair value through profit and loss. Movements in the fair value of such investments are posted to the surplus or deficit on the provision of services as they arise.

Fair Value through Other Comprehensive Income

Certain designated equity holdings are classed as fair value through other comprehensive income. Movements in amortised cost are debited/credited to the surplus or deficit on the provision of services, but movements in fair value debited/credited to other comprehensive income. Cumulative gains/losses on fair value are transferred to the General Fund balance on derecognition.

Financial Asset

A right to future economic benefits controlled by the Council that is represented by cash or other financial instruments or a contractual right to receive cash or another financial asset.

Finance Lease

A lease which transfers substantially all 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 more 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 misstated, 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 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 minus total liabilities = net assets.

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 taxpayers 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 City 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 City Council at the end of the contracts for no additional charge. The City 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 City 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 City 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.

Segmental Income

This is the Council's income analysed according to how the authority has been managed. In the City Council this is by member portfolio.

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 City 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.

Agenda Item 7



Portsmouth
CITY COUNCIL

Title of meeting:	Governance and Audit and Standards Committee Cabinet City Council
Date of meeting:	08 March 2023 (Governance and Audit and Standards Committee) 07 March 2023 (Cabinet) 14 March 2023 (City Council)
Subject:	Treasury Management Policy 2023/24
Report by:	Chris Ward, Director of Finance and Resources (Section 151 Officer)
Wards affected:	All
Key decision:	Yes
Full Council decision:	Yes

1. **Executive Summary of the Treasury Management Policy Statement**

1.1. Treasury Management Policy

The attached Treasury Management Policy sets out the Council's policies on borrowing and investing temporarily unallocated cash resources flows for 2023/24.

In addition, the Prudential Code produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires the City Council to also approve a Capital Strategy (reported elsewhere on the Cabinet Agenda for 07 March 2023) providing an overview of the Council's plans for capital expenditure, its borrowing, and its investments.

The Treasury Management Policy (attached) also sets several treasury management indicators that will establish the boundaries within which treasury management activities will be undertaken.

1.2. Annual Investment Strategy

The Treasury Management Policy includes the strategy for the investment of temporarily unallocated cash resources, known as the Annual Investment Strategy, which establishes the types of investment, investment counter parties and investment durations that the Council will operate within.

2. Purpose of report

- 1.1. The purpose of this report is to obtain the Council's approval of the updated Treasury Management Policy Statement (attached) which includes the Annual Investment Strategy.

3. Recommendations

- 1.1. That the upper limit for principal sums invested for longer than 365 days contained in paragraph 4.6 of the attached Treasury Management Policy Statement be approved;
- 1.2. That the upper and lower limits on the maturity structure of borrowing contained in appendix 5.1 of the attached Treasury Management Policy Statement be approved;
- 1.3. That the attached Treasury Management Policy Statement including the Treasury Management Strategy and Annual Investment Strategy for 2023/24 be approved;
- 1.4. That the following changes compared to the previous Treasury Management Policy be noted:
 - (i) the inclusion of a new treasury management indicator for 2023/24 known as the liability benchmark. This graphically compares the Council's net loans requirement against its existing loan debt, showing the amount of borrowing required in future years.
 - (ii) medium and longer dated borrowing rates are high, but are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. With this in mind, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully drawn with loan debt as cash from the Authority's reserves, balances and cash flows has been used as a temporary measure. This is a change of emphasis from the 2022/23 Treasury Management Strategy which was approved at a time of low interest rates which were expected to increase. The 2022/23 Treasury Management Strategy placed more emphasis on having a predictable revenue cost of borrowing in the long-term. Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance and Resources (Section 151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, always seeking to balance risk, certainty and cost.
 - (iii) where state institutions own 50% or more of an entity and can exert significant influence over the counterparty through their shareholdings, the Council will in future avoid investments in such institutions where the state institution has a poor human rights record.
- 1.5. As set out in paragraph 1.5 of the Treasury Management Policy Statement, the Director of Finance and Resources (Section 151 Officer) and officers nominated by him have delegated authority to:
 - (i) invest surplus funds in accordance with the approved Annual Investment Strategy;

- (ii) borrow to finance short term cash deficits and capital payments from any reputable source within the authorised limit for external debt of £1,100m approved by the City Council on 28 February 2023;
 - (iii) reschedule debt to even the maturity profile or to achieve revenue savings;
 - (iv) to buy and sell foreign currency, and to purchase hedging instruments including forward purchases, forward options, and foreign exchange rate swaps to mitigate the foreign exchange risks associated with some contracts that are either priced in foreign currencies or where the price is indexed against foreign currency exchange rates
- 1.6. That the Director of Finance and Resources (Section 151 Officer) has the power to delegate treasury management operations to relevant staff;
- 1.7. That the Chief Executive, the Leader of the City Council and the Chair of the Governance and Audit and Standards Committee be informed of any variances from the Treasury Management Policy when they become apparent, and that the Leader of the City Council be consulted on remedial action (paragraph 1.2 of the Treasury Management Policy Statement).

2. Background

- 1.1. The Council's treasury management operations cover the following:
- Cash flow forecasting (both daily balances and longer-term forecasting)
 - Investing temporary surplus cash flows in approved investments
 - Borrowing to finance short term cash deficits and capital payments
 - Management of debt (including rescheduling and ensuring an even maturity profile)
 - Interest rate exposure management
 - Hedging foreign exchange rate risks
- 1.2. The key risks associated with the Council's treasury management operations are:
- Credit risk - i.e. that the Council is not repaid, with due interest in full, on the day repayment is due;
 - Liquidity risk - i.e. 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 more than those for which the Council has budgeted;

- Exchange rate risk - the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately;
- Inflation risk, i.e. the chance that cash flows from an investment will not be worth as much in future because of changes in purchasing power due to inflation;
- 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 - i.e. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error, or corruption.

1.3. The total borrowings of the Council on 01 April 2023 are estimated to be £748m. The Council's investments on 01 April 2023 are estimated to be £325m. The cost of the Council's borrowings and the income derived from the Council's short-term treasury investments (i.e. excluding commercial property investments) are included within the Council's treasury management budget of £26m per annum. The Council's treasury management activities account for a sizeable proportion of the Council's overall budget. Therefore the Council's Treasury Management Policy aims to manage risk while optimising costs and returns. The Council will monitor and measure its treasury management position against the indicators contained in the Treasury Management Policy.

1.4. The City Council has adopted CIPFA's Treasury Management in the Public Services Code of Practice. The Code of Practice requires the City Council to approve a Treasury Management Strategy before the start of the financial year.

1.5. In addition the Government has issued statutory guidance that requires the Council to approve an Annual Investment Strategy before the start of the financial year.

1.6. The Treasury Management Strategy, and the Annual Investment Strategy are all contained within the attached Treasury Management Policy Statement.

5. Reasons for recommendations

1.7. The recommendations provide assurance that the Council's attached Treasury Management Policy Statement reflects CIPFA's Treasury Management Code of Practice and have regard to statutory guidance issued by the Government. These are designed to:

- Enable the Council to borrow funds as part of managing its cash flow or to fund capital expenditure in a way that minimises risk and costs;
- Provide for the repayment of borrowing;
- Ensure that the Council's investments are secure;
- Ensure that the Council maintains sufficient liquidity;

- Maximise the yield on investments in a way that is commensurate with maintaining the security and liquidity of the investment portfolio;

- 5.2 The inclusion of a new treasury management indicator for 2023/24 known as the liability benchmark is a requirement of CIPFA's Treasury Management in the Public Services Code of Practice. The liability benchmark graphically compares the Council's net loans requirement against its current borrowings. When the Council's existing loans exceed its net loans requirement, surplus funds must be invested, carrying credit risk if an investment counterparty defaults, and the risk that the temporary surplus cash cannot be invested at a return exceeding the cost of the borrowing, known as the cost of carry. When the Council's net loans requirement exceeds its current borrowings, the Council is exposed to the risk that interest rates could increase before actual external borrowing is undertaken.
- 5.3 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully drawn with loan debt as cash from the Authority's reserves, balances and cash flows has been used as a temporary measure. This is a change of emphasis from the 2022/23 Treasury Management Strategy which placed more emphasis on having a predictable revenue cost of borrowing in the long-term, always seeking to balance risk, certainty and cost. Undertaking borrowing from external sources when required allows the Council to lock into an interest rate on its borrowings and have a predictable cost of borrowing in the long term. When interest rates are low but expected to increase, as was the case when the 2022/23 Treasury Management Strategy was approved, it can be beneficial in the long term to borrow externally. However, the Council does not have to borrow externally as soon as capital expenditure is financed from borrowing as it is currently holding cash from its general balances and earmarked reserves. This gives the Council the ability to fund capital expenditure from its cash balances in the short term. This is known as internal borrowing. With interest rates currently being high but expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy, it is likely to be beneficial to delay undertaking external borrowing. Delaying external borrowing until the Council needs the cash also eliminates the risk of a cost of carry in the short term. This is where the returns on the Council's investments are less than the cost of borrowing. However, delaying borrowing externally does carry the risk that interest rates may increase resulting in a higher long-term cost of borrowing. The Director of Finance and Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 5.4 It is recommended that where state institutions own 50% or more of an entity and can exert significant influence over the counterparty through their shareholdings, the Council will in future avoid investments in such institutions where the state institution has a poor human rights record. This will ensure that the Council is acting in an ethical manner and protect the Council from reputational risks.

6. Integrated impact assessment

1.8. The contents of this report do not significantly impact Portsmouth's communities (other than through the finances of the City Council), or equality and diversity.

7. Legal implications

1.9. The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Director of Finance's comments

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

.....
Signed by: Director of Finance and Resources

Appendices: Treasury Management Policy Statement 2023/24

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:

Location:	Location
Information pertaining to the Treasury Management Strategy	Financial Services

TREASURY MANAGEMENT POLICY STATEMENT FOR 2023/24 INCLUDING:

- **TREASURY MANAGEMENT STRATEGY**
- **ANNUAL INVESTMENT STRATEGY**

**Portsmouth City Council
Director of Finance and Resources (Section 151 Officer)**

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1. INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Temporary surplus cash flows are invested in low-risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity primarily before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses (usually from Reserves or Balances that are not required immediately but are earmarked or budgeted for future use). On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as these are needed for a future purpose and any loss of principal will in effect result in a loss to the General Fund Balance and therefore put spending plans at risk

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Whilst any commercial initiatives or loans to third parties will affect the treasury function, these activities are classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements and governance procedures.

Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a) **Treasury Indicators and Treasury Strategy** (this report) - The first, and most important report is forward looking and covers:
 - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an investment strategy, (the parameters on how investments are to be managed).
- b) **A Mid-year Treasury Management report** – This is primarily a progress report and will update members on the treasury management position, amending prudential and treasury management indicators as necessary, and revising any policies if required. In addition, the Governance and Audit and Standards Committee will receive quarterly update reports.
- c) **An Annual Treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit and Standards Committee.

In addition, the Governance and Audit and Standards Committee receives quarterly treasury management monitoring reports.

The Chief Executive, the Leader of the City Council and the Chair of the Governance and Audit and Standards Committee will be informed of any variances from the Treasury Management Policy when they become apparent, and the Leader of the City Council will be consulted on remedial action.

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers:

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy including the risk appetite;

- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy including the risk appetite;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

A formal record of the training received by officers central to the Treasury function will be maintained by the Deputy Director of Finance and Section 151 Officer. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Deputy Director of Finance and Section 151 Officer.

1.5 Treasury Management Staff

The treasury management function is undertaken by the Director of Finance and Resources (Section 151 Officer). This includes:

- i) Investing surplus funds in accordance with the approved Annual Investment Strategy;
- ii) Borrowing to finance short term cash deficits and capital payments from any reputable source within the authorised limit for external debt;
- iii) Rescheduling debt to even the maturity profile or to achieve revenue savings and;
- iv) To buy and sell foreign currency and hedge against currency movements to fulfil contracts priced in or indexed against foreign currencies.

The Director of Finance and Resources will have the power to delegate authority to undertake these functions to relevant officers including the Deputy Director of Finance and Section 151 Officer, Finance Managers, the Treasury Manager and various back up cash dealers drawn from the Finance Directorate. The Director of Finance and Resources (Section 151 Officer), the Deputy Director of Finance and Section 151 Officer, and the Finance Manager (Technical and Financial Planning) are all qualified Chartered Public Finance Accountants.

1.6 Treasury Management Consultants

The Council employs professional consultants to:

- Provide interest rate forecasts to inform the Council's borrowing and investment decisions;
- Information on creditworthiness to inform investment decisions;

- Benchmark the Council's investment performance against other local authorities.

The Council currently retains "Link Asset Services, Treasury Solutions" as its external treasury management advisors. The contract will be re-let through a competitive process in accordance with the Council's procurement rules.

The Council also uses information from other sources such as the Building Societies Association and Homes England.

The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including from, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties, which are outside the scope of the Treasury Management Strategy. The commercial type investments require specialist advisers, and the Council uses Avison Young in relation to this activity.

2. THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2027/28

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

The Capital Programme approved by the City Council on 28 February 2023 can be summarised in Table A as follows:

Table A	2021/22 Actual	2022/23 Revised Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£m	£m	£m	£m	£m	£m	£m
Other Non - Housing Revenue Account	163	247	279	151	74	34	4
Housing Revenue Account (HRA)	64	72	104	89	61	33	35
Total	227	319	383	240	135	67	39
Element financed from borrowing	44	59	171	123	51	-	-

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's indebtedness and therefore its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital funding resource, will increase the CFR.

The CFR does not increase indefinitely and is reduced by the minimum revenue provision (MRP) which is a statutory annual revenue charge that reduces the indebtedness broadly in line with each asset's life, thus the economic consumption of capital assets as they are used is charged to the Council's Revenue Budget.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £51m of such schemes within the CFR.

The projected CFR is shown below:

Table B	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Financing Requirement (£m)							
Investment Properties	163	164	173	173	173	173	173
Other Non - Housing Revenue Account	465	481	563	617	631	622	611
Sub - Total	628	645	736	790	804	795	784
Housing Revenue Account (HRA)	229	260	331	390	417	414	411
Total CFR	857	905	1,067	1180	1,221	1,209	1,195

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The details above demonstrate the scope of this activity and, by approving these sums; consider the scale proportionate to the Authority's remaining activity.

2.3 Liability Benchmark

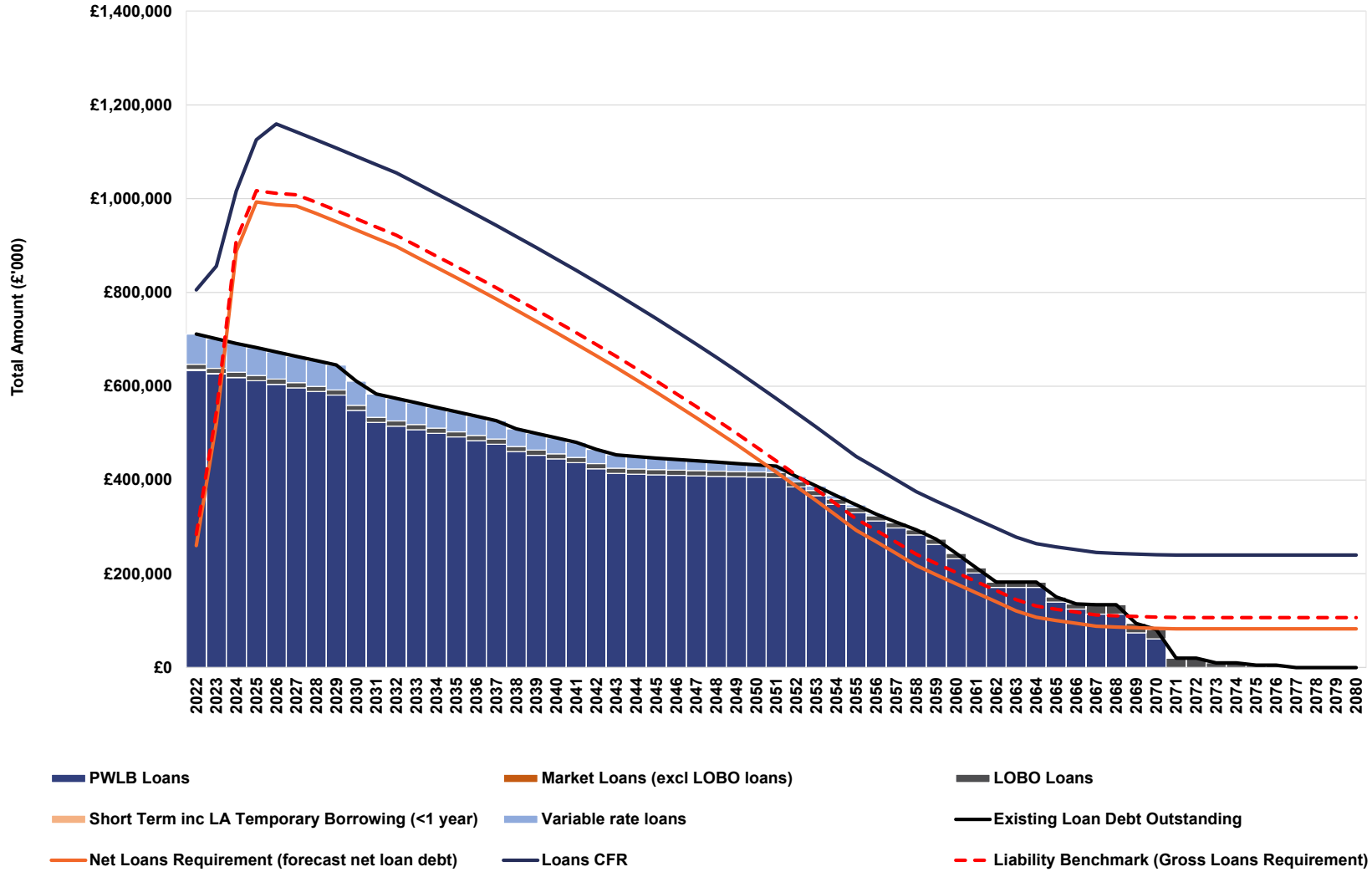
A new treasury management indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB:

- 1) **Existing loan debt outstanding** (shown as a bar chart below): the Authority's existing loans that are still outstanding in future years.
- 2) **Loans CFR** (the top line in the graph below): this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- 3) **Net loans requirement** (the bottom line in the graph below): this shows the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- 4) **Liability benchmark** (or gross loans requirement) (the middle line in the graph below): this equals net loans requirement plus short-term liquidity allowance.

The short-term liquidity allowance is an adequate (but not excessive) allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed (due to short-term cash flow variations, for example).

Liability Benchmark



The Council's current borrowing exceeds its liability benchmark. This has resulted in excess cash requiring investment. However between 2023/24 and 2052/53 the Council's actual loans are less than the liability benchmark indicating a future borrowing requirement.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table C Year End Resources £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Fund balances / reserves	274	216	191	180	179	179	179
Capital grants unapplied	48	48	48	48	48	48	48
Capital receipts	18	18	18	18	18	18	18
Provisions	15	15	15	15	15	15	15
Other	122	122	122	122	122	122	122
Total core funds	477	419	394	383	382	382	382
Working capital*	78	63	63	63	63	63	63
Over / (under) borrowing - see below	(95)	(157)	(332)	(407)	(417)	(420)	(421)
Expected investments	460	325	125	50	39	25	24

*Working capital balances shown are estimated year-end; these may be higher mid-year

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

3.1 Current Borrowing

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table D	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt (£m)							
Debt on 1 st April	721	711	702	693	735	769	760
Expected change in Debt	(10)	(9)	(9)	42	34	(9)	(9)
Other long-term liabilities (OLTL) on 1 April	57	51	46	42	38	35	29
Expected change in OLTL	(6)	(5)	(4)	(4)	(3)	(6)	(6)
Actual gross debt on 31 March	762	748	735	773	804	789	774
The Capital Financing Requirement	857	905	1,067	1,180	1,221	1,209	1,195
Over / (under) borrowing	(95)	(157)	(332)	(407)	(417)	(420)	(421)

Within the above figures the level of debt relating to commercial activities / non-financial investment is:

Table E	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt for investment properties							
Actual debt on 31 March £m	163	164	173	173	173	173	173
Percentage of total external debt %	21%	22%	24%	22%	22%	22%	22%

Within the range of prudential indicators, there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Finance and Resources (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and proposals in the budget.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit, set as part of the capital programme, beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and of other cash resources (as described in Table B).

Table F	2022/23 Estimate (£m)	2023/24 Estimate (£m)	2024/25 Estimate (£m)	2025/26 Estimate (£m)	2026/27 Estimate (£m)	2027/28 Estimate (£m)
Commercial activities/ non-financial investments	164	173	173	173	173	173
Other Debt	696	852	969	1,013	1,019	1,014
Other long-term liabilities	46	42	38	35	29	23
Total	906	1,067	1,180	1,221	1,221	1,210

The authorised limit for external debt. This is a key prudential indicator, set as part of the capital programme, and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Table G	2022/23 Estimate (£m)	2023/24 Estimate (£m)	2024/25 Estimate (£m)	2025/26 Estimate (£m)	2026/27 Estimate (£m)	2027/28 Estimate (£m)
Commercial activities/ non-financial investments	164	173	173	173	173	173
Other Debt	727	885	1,002	1,047	1,053	1,049
Other long-term liabilities	46	42	38	35	29	23
Total	937	1,100	1,213	1,255	1,255	1,245

3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 07 February 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

The MPC further demonstrated its anti-inflation credentials by delivering a further 0.5% increase in the Bank Rate on 02 February. Bank Rate stands at 4.0% currently but is expected to reach a peak of 4.5% in the first half of 2023.

In the medium term, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The consumer price index CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

3.4 Bond yields / Public Works Loans Board (PWLB) rates.

Gilt yields and hence PWLB rates have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

Our treasury advisors, Link Group, view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

3.5 Investment and borrowing rates

Investment returns. With the increase in base rate, new investments made in 2022/23 have had higher returns, and this has resulted in the overall rate of return on the Council's investments increasing. This is expected to continue into 2023/24.

Borrowing for capital expenditure. Link's long-term (beyond 10 years), forecast for Bank Rate is 2.5%. As all PWLB certainty rates are currently above this level, our borrowing strategy will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed local authority (LA) to LA monies will be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

3.6 Borrowing strategy and risk appetite

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully drawn with loan debt as cash from the Authority's reserves, balances and temporary cash flows has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance and Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

3.7 Policy on borrowing in advance of need

Section 12 of the Local Government Act 2003 gives a local authority the power to invest for "any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs". While the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there is no legal obstacle to the temporary investment of funds borrowed for the purpose of funding capital expenditure incurred in the reasonably near future.

Borrowing in advance of need may enable the City Council to obtain cheaper loans than those available at the time when expenditure is incurred, although the consequent investment of funds borrowed in advance of need does expose the City Council to credit risk. The interest payable on funds borrowed in advance of need may exceed the interest earned on the investment of those funds. The Council may determine to borrow in advance of need in circumstances where it is reasonably expected that the total cost of borrowing over the whole life of the loan in present value terms is lower by borrowing in advance of need.

3.8 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is a large difference between premature redemption rates and the PWLB's new borrowing rates.

If rescheduling was done, it will be reported to the Cabinet / Council, at the earliest meeting following its action.

3.9 Approved Sources of Long and Short Term Borrowing

	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)		●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Internal (capital receipts & revenue balances)	n/a	n/a
Finance leases	●	●

3.10 Apportionment of Borrowing Costs to the Housing Revenue Account (HRA)

The Council operates two loans pools for the purposes of apportioning borrowing costs to the HRA.

The first loans pool consists of all the Council's loans taken out prior to 2020/21 for both General Fund and HRA purposes. The Council will continue to operate this loans pool and apportion costs according to locally established principles. The principles upon which the apportionment of borrowing costs should be based are as follows:

- The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;
- The loans portfolio is managed in the best interests of the whole authority;

The second loans pool consists of the three £20m loans that were taken from the PWLB at the HRA Certainty Rate which was 1.0% below the PWLB General Fund Certainty Rate at the time. The borrowing costs on these loans will be charged to the HRA in their entirety.

From 25 November 2020 the PWLB General Fund Certainty Rate was reduced by 1.0%, thereby removing the differential between the General Fund and HRA PWLB rates. Any future borrowing will therefore be included in the first loans pool covering both the HRA and the General Fund.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk that is measured by the following means:

- 1) Minimum acceptable **credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings including outlooks and credit watches.
- 2) **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- 3) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 4) This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.2 under the categories of 'specified' and 'non-specified' investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments to £200m, (see paragraph 4.3).

Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

This authority will set a limit for its investments that are invested for **longer than 365 days**, (see paragraph 4.7).

Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

This authority places **sector and geographical limits** on its investment portfolio to avoid the concentration of risk, (Appendix 5.3).

Because of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments, which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. A further extension to the over-ride to 31 March 2025 has been agreed by the Government.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance and Resources (Section 151 Officer) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval, as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality that the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed considering market conditions.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
 - i) are UK banks; and/or
 - ii) are non-UK and domiciled in a country which has a double A sovereign Long-Term ratingand have, as a minimum, the following Fitch, Moody's, and Standard & Poor's credit ratings (where rated):
 - i) Short Term - F1, P-2, or A-2
 - ii) Long Term – A-
- Banks 2 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Banks 3 - Secured lending to banks partly owned by the City Council.
- Building Societies. The Council will use all societies which:
 - i) Meet the ratings for Banks 1 outlined above or;
 - ii) Have assets more than £350m;or meet both criteria.
- Money Market Funds (MMFs)
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities
- Housing associations. In addition to ratings from the credit agencies, housing associations will only receive investments if they have a viability rating of V1 and a governance rating of G1 from Homes England.
- Supranational institutions that meet the ratings for banks outlined above

- Corporate Bonds. The Council will invest in corporate bonds which:
 - i) Meet the ratings for Banks 1 outlined above or;
 - ii) Have a credit rating of BBB+ or;
 - iii) Have a credit rating of BBB- but form part of a portfolio managed by professional fund managers
- Universities that meet the ratings for Banks 1 outlined above
- Pooled investment vehicles including equity funds, property funds, corporate bond funds and multi asset funds
- Subsidiary companies of the City Council.

A limit of £200m will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time limits are applied to most investment categories to limit credit risk as the longer the duration of an investment is, the more time there is for the credit quality of the counter party to deteriorate. There are no time limits applied to corporate bonds managed by a professional fund manager, pooled investment vehicles, and subsidiary companies of the Council. Corporate bonds can be sold if there is a need to disinvest and a professional fund manager will have more resources to assess credit quality. Investments in pooled investment vehicles often do not have a predetermined maturity; the Council would withdraw its investment at the appropriate time. The Council controls its subsidiary companies and therefore can have a considerable influence on their credit quality.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are summarised below (these will cover both specified and non-specified investments):

Table H	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks and Building Societies 1 highest quality	AA-	£26m	6yrs
Banks and Building Societies 1 higher quality	A+	£20m	6yrs
Banks and Building Societies 1 medium quality	A	£15m	6yrs
Banks 1 lower quality	A-	£10m	6yrs
Banks 2 the Council's own banker if the criteria for Banks 1 is not met	-	Minimised	Minimised
Banks 3 partly owned by the Council	-	£10m	5yrs
Building Societies with assets of more than £350m	-	£6m	2yrs
UK Government including DMADF and institutions guaranteed by the UK Government	UK sovereign rating	unlimited	6yrs
Local authorities	N/A	£30m	6yrs
Housing associations higher quality	AA-	£30m	10yrs
Housing associations lower quality	A-	£20m	10yrs
Corporate bonds purchased by City Council but not meeting criteria for Banks 1 above	BBB+	£7m	365 days
Corporate bonds managed by a professional fund manager	BBB-	£0.32m per bond up to a limit of £8m	Unlimited
Pooled investment vehicles	-	£50m	Unlimited
Subsidiary companies of the Council	-	£30m	Unlimited
	Fund rating	Money Limit	Time Limit
Money Market Funds	AAA	£26m	liquid
Enhanced Money Market Funds	AA	£20m	liquid

*Building Societies with assets of more than £350m was omitted from the above summary in the 2022/23 Treasury Management Strategy.

The proposed criteria for specified and non-specified investments are shown in Appendix 5.2 for approval.

Creditworthiness. Significant levels of downgrades to short- and long-term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards in the autumn, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups, and sectors.

- a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments to £200m.
- b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch or equivalent.
- c) **Other limits.** In addition:
 - limits in place above will apply to a group of companies;
 - sector and geographic limits will be monitored regularly for appropriateness.

4.4 Environmental, Social and Governance (ESG) Factors

The Council will seek to move towards investments that improve the environment, bring wider social benefits, and are with organisations with good governance.

The Council will avoid investments in fossil fuel extraction unless they are making substantial investment into renewable energy technologies as part of a strategy to move to becoming a clean energy supplier.

The Council will give weight to the environmental, social and governance ratings in making investment decisions, provided that the overall risk profile of the investment portfolio (including liquidity risk) is not compromised, and that decisions remain consistent with responsible financial management and stewardship.

ESG ratings focus on non-financial performance indicators that address a counterparty's approach towards responsible investment, sustainability, its impact on society and the environment, as well as other ethical and corporate governance considerations. Due to the volume of counterparties with which the Council transacts, the speed of such transactions and the depth of due diligence required to investigate and understand the ESG credentials, an ESG screening service is used using industry produced indicators.

Treasury Management investment transactions are limited to institutions with ESG ratings of "Leaders" or "Average". Institutions with an ESG rating of "Laggards" are declined.

An ESG Key Issue hierarchy is used to measure an institution's ESG rating and is based on three pillars, ten themes and thirty-five key issues as follows:

3 Pillars	10 Themes	35 ESG Key Issues	
Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Capital	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opportunities in Renewable Energy
Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Consumer Financial Protection	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing Community Relations	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opportunities in Nutrition & Health
Governance	Corporate Governance	Ownership & Control Board	Pay Accounting
	Corporate Behavior	Business Ethics Tax Transparency	

The ESG ratings model seeks to answer four key questions about institutions:

- i) What are the most significant ESG risks and opportunities facing an institution, company, or industry?
- ii) How exposed is the institution or company to those key risks and/or opportunities?
- iii) How well is the institution or company managing key risks and opportunities?
- iv) What is the overall assessment of how the institution or company is managing ESG risks and opportunities and how does it compare to its global industry peers?

The key issue scores and weights are combined and normalised per industry to offer an overall ESG score (0-10) and rating (AAA-CCC) as follows:



The overall ESG Rating measures the ability of an institution to manage key medium- to long-term risks and opportunities arising from environmental, social and governance issues. The ESG Rating is provided on a AAA-CCC scale, with AAA and CCC being the respective highest and lowest fund ratings.

- i) Institutions or companies with a "Leader" rating tend to show strong and/or improving management of relevant environmental, social and governance issues. These institutions may be more resilient to disruptions arising from ESG events
- ii) Institutions or companies with an "Average" rating tend to show average management of ESG issues
- iii) Institutions or companies with a "Laggard" rating do not demonstrate adequate management of the ESG risks that they face or show worsening management of these issues. These institutions may be more vulnerable to disruptions arising from ESG events.

It should be noted that ESG credentials relate to counterparties, as distinct from the country in which the counterparty is domiciled. However, where state institutions own 50% or more of the entity and can exert significant influence over the counterparty through their shareholdings, the Council will avoid investments in such institutions where the state institution has a poor human rights record.

4.5 Investment Strategy and Risk Appetite Statement

All the investment guidance available, both statutory and from the Chartered Institute of Public Finance and Accountancy (CIPFA), makes it clear that all investing must follow SLY principles - security, liquidity, yield. In accordance with the guidance issued, the Council's priority in investing is security, followed by liquidity. After these priorities are met, the Council will seek to maximise yields. The Council will consider the environmental and social implications of its investments once SLY principles have been met.

The Council's objectives in relation to investment can accordingly be stated as follows:

Sums are invested with a diversified range of counter parties using the maximum range of financial instruments consistent with a low risk of the capital sum being diminished through movements in market prices.*

* Financial instruments include term deposits, certificates of deposits, corporate bonds, money market funds, structured notes, and shares in pooled investment funds

This means that the Council is not totally risk averse. Treasury management staff have the capability to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

When investing temporary surplus cash flows, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities but may invest in other bodies including unrated building societies, Registered Social Landlords (RSLs), and corporate bonds. The Council may invest surplus funds through tradable instruments such as treasury bills, gilts, certificates of deposit, corporate bonds, covered bonds and repos / reverse repos.

The Council will invest its temporary surplus cash flows to provide sufficient liquidity to meet its cash flow needs but is mindful that the value of its investments will fall in real terms unless investment returns are at least equal to inflation. To earn investment returns more than inflation on as much of its temporary surplus cash as possible, the Council will invest as much as it can in longer-term higher yielding investments whilst maintaining sufficient liquidity to meet its cash flow needs.

The Council may invest in lower risk structured investment products that follow the developed equity and other market indices where movements in prices may diminish the capital sum invested. These investments, and indeed any other investment, could also be diminished if the counter party defaults. Although the Council only invests in counter parties offering good credit quality, the credit quality of an investment counter party can decline during the life of the investment. This is particularly the case with long-term investments.

The Council may invest in externally managed pooled investment vehicles such as corporate bond funds, equity funds, property funds and multi asset funds, if the Council has cash for a term that is sufficient to cover cyclical movements in prices.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed:

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall, consideration will be given to locking in higher rates currently obtainable, for longer periods.

4.6 Investment treasury indicator and limit - total principal funds invested for greater than 365 days.

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

Table I - Upper limit for principal sums invested for longer than 365 days			
	2024	2025	2026
	£m	£m	£m
Current investments as of 31 March more than 1 year maturing in each year	130	50	50

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5. APPENDICES

5.1 Maturity structure of borrowing

5.2 Credit and counterparty risk management

5.3 Sector and Geographic Investment Limits

Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Table J		
Maturity structure of fixed interest rate borrowing		
	Lower	Upper
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	20%
10 years to 20 years	0%	30%
20 years to 30 years	0%	40%
30 years to 40 years	0%	40%
40 years to 50 years	0%	40%
Maturity structure of variable interest rate borrowing		
	Lower	Upper
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years to 20 years	0%	30%
20 years to 30 years	0%	40%
30 years to 40 years	0%	40%
40 years to 50 years	0%	40%

CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. To facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance and Resources (Section 151 Officer) has produced its treasury management practices (TMPs).

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the Treasury Strategy Statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments that would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Office deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Bonds issued by supranational banks of less than one year's duration.
3. A local authority, housing association.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles, such as money market funds, rated AA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society) with a minimum Short-Term rating of A-2 / P-2 / F1 as rated by Standard and Poor's, Moody's and / or Fitch rating agencies .

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are contained in Table H.

Non-specified investments – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any investments with:

	Non-Specified Investment Category	Limit £
a.	<p>Supranational bonds greater than 1 year to maturity</p> <p>(a) Multilateral development bank bonds with a AAA long-term rating - These are bonds defined as an international financial institution having as one of its objects economic developments, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p> <p>(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. Like category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p>£26m for up to 6 years</p> <p>£26m for up to 6 years</p>
b.	<p>Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Like category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p>Unlimited investments for up to 6 years</p>
c.	<p>The Council’s own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	<p>£10m for up to 1 day</p>
d.	<p>Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies that have a minimum asset size of £350m.</p>	<p>£6m for up to 2 years</p>
e.	<p>All banks and building societies that have a minimum long-term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals more than one year from inception to repayment).</p>	<p>Up to £26m (depending on credit quality) for up to 6 years</p>

	Non-Specified Investment Category	Limit £
f.	Loan capital in a body corporate with a credit rating of at least BBB+. This will enable investments to be made in large commercial companies such as British Telecom. A short-term investment in a BBB+ rated counterparty may be less likely to default than a long-term investment with an A- rated counterparty.	£7m for 365 days
g.	Corporate bonds bought on the Council's behalf by professional fund managers who will target an average credit rating of at least BBB+ for the corporate bond fund. The average credit rating of the corporate bond fund may fall to BBB if there was a downgrade to a single issue or a broad downgrade. We would not want the fund manager to be a forced seller in this situation. If this situation arises, a strategy will be agreed with the fund manager to return the average rating of the portfolio to BBB+.	£8m for an unlimited duration
h.	Pooled investment vehicles including equity funds, property funds and multi asset funds with the potential to generate returns more than inflation and thus maintain the value of the principal invested in real terms.	£50m for an unlimited duration
i.	Subsidiary companies of the Council. Funds could be invested to facilitate the establishment of a subsidiary company to develop housing in the greater Portsmouth area on a commercial basis.	£30m for an unlimited duration
j.	Banks partly owned by the City Council. The Council is an equity shareholder in Hampshire Community Bank (HCB). Purchasing bonds in HCB would contribute to the regeneration of Hampshire. Investing in HCB carries greater risk than the other approved investments contained in the Council's Annual Investment Strategy, as HCB is a new entity that is in the process of developing its business, and currently has neither a banking license nor a credit rating. However, HCB will be able to offer assets as security to cover a bond. These assets would consist of loans of the highest credit quality to the small and medium enterprise (SME) sector. The loan assets offered as security would pass to the Council in the event of HCB defaulting.	£10m for 5 years

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately.

SECTOR AND GEOGRAPHIC INVESTMENT LIMITS

Sector Investment Limits

AA money market funds offer security and same day access. By aggregating investments, they can also invest in financial institutions that may not be interested in the relatively small sums that the Council can invest. Although AA money market funds are well diversified in their investments, there is a risk that more than one fund could have investments with the same bank or that the Council may also have invested funds in the same bank as a money market fund. Therefore, it is proposed that the Council should aim to have no more than £80m invested in money market funds.

Most building society lending is secured against residential properties. If property prices fall there may be inadequate security to support building societies lending giving rise to a systemic risk.

As RSL's offer one principal service and their assets principally consist of residential properties, excessive investments in RSLs would also expose the Council to a systemic risk.

Excessive investments in investment products tracking equity, property or other markets could also expose the Council to a systemic risk.

To minimise systemic credit risk in any sector the following limits will be applied:

Money market funds	£80m
Building societies	£155m
Registered Social Landlords	£80m
Investments tracking the equity, property, or other markets	£70m

Geographic Investment Limits

To minimise systemic credit risk in any region, the following limits will be applied to the geographic areas where investments can be made in foreign countries.

Asia & Australia	£80m
Americas	£80m
Eurozone	£60m
Continental Europe outside the Eurozone	£60m

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Title of meeting:	Governance & Audit & Standards Committee
Date of meeting:	8 March 2023
Subject:	Internal Audit Performance Status Report to 21 February 2023 & Internal Audit Plan 2023/24
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 2022/23 planned audit activities and an Internal Audit Plan for 2023/24, drafted in compliance with the Public Sector Internal Audit Standards and the Local Government Act. Appendix A includes the detail of progress made against the annual plan and documents individual audit findings. Appendix B includes details of the proposed Internal Audit Plan for 2023/24.

2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on Internal Audit Performance for 2022/23 to 21 February 2023 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework and to present the proposed Internal Audit Plan for 2023/24 to the committee for approval, as set out in Appendix B.

3. Recommendations

- 3.1 That Members note the Audit Performance for 2022/23 to 21 February 2023.
- 3.2 That Members note the highlighted areas of concern in relation to audits completed from the 2022/23 Audit Plan, including follow up work performed.
- 3.3 That members approve the proposed Internal Audit Plan for 2023/24.

4. Background

4.1 The Annual Audit Plan for 2022/23 has been drawn up in accordance with the agreed Audit Strategy and was approved by this Committee on 4 March 2022 following consultation with Directors and relevant parties. The Plan is reviewed regularly 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

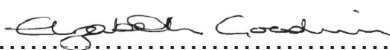
6.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council’s legal requirements and the Council is fully empowered to make the decisions in this matter.

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
- Appendix B - Internal Audit Plan 2023/24

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
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1	Accounts and Audit Regulations	http://www.legislation.gov.uk/uksi/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 8th March 2023

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 set out 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 2022/23 internal audit plan.

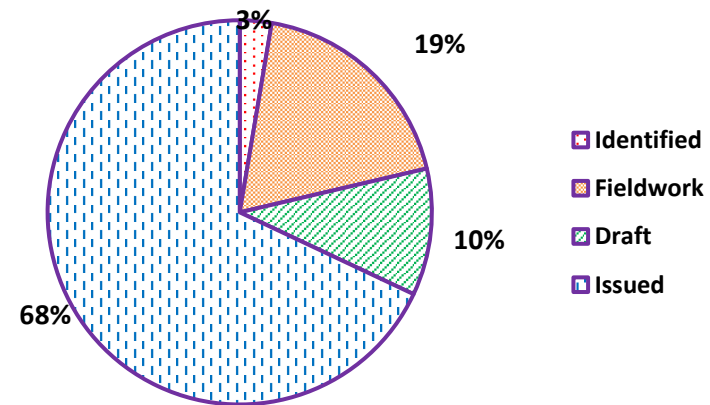
2. Audit Plan Progress as of 21ST February 2023

There are 34 Full Audits, 17 first follow ups, 6 second follow up reviews, 3 consultancy review and 15 grants, in the revised plan for 2022/23, totalling 75 reviews. *

To date, 73 (97%) have been completed or are in progress as of 21st February 2023. This represents 51 (68%) audits where the report has been finalised.

Status	Audits
Identified	2 (3%)
Fieldwork	14 (19%)
Draft Report	8 (10%)
Final Report	51 (68%)

Audit Plan Progress as of 21st February 2023



**Figures are only in relation to PCC audits and are excluding any SLEP or Portico reviews.*

3. Ongoing Internal Audit Involvement

Internal Audit has provided advice, ongoing reviews and involvement work in the following areas:

- 2 Regulation of Investigatory Powers Act (RIPA) - authorisations (reported annually) and policy review
- 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
- 122 open investigation cases - (includes, corporate, benefit and council tax support cases)
- 21 items of advice

4. Audit Plan Status/Changes.

The original audit plan agreed on the 4th March 2022 had a total of 67 reviews. The following changes have been made since the last progress report.

Audits removed from the Audit Plan:

- Hybrid Working - Removed from the 2022/23 plan to accommodate additional work.
- OneDrive / U Drive - Removed from the 2022/23 plan to accommodate additional work.
- Transforming City Fund Grant - Removed from the 2022/23 plan as grant is no longer requiring sign off
- Port Grant - Removed from the 2022/23 plan as grant is no longer requiring sign off

Amendments made to the Audit Plan:

- Coffee Shops - Amended from follow up to full audit due to time period between reviews and requirement to assess continuing of viability.

Audits added to the Audit Plan:

- Weight Management Grant - Added into the 2022/23 audit plan and Chief Internal Auditor sign off required.
- Ad-hoc payments and expenses (Children's Social Care) - Added to the 2022/23 audit plan due to issues identified.
- Handling of Funds (Children's Social Care) - Added to the 2022/23 audit plan due to issues identified.
- Shearwater (Agency) - Added into 2022/23 the plan due to control weaknesses identified elsewhere.

5. Areas of Concern

No new areas of concern.

6. Assurance Levels

Internal Audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework for 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>

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. 2022/23 Audits completed to date (21st February 2023)

Business Planning & Risk Management - Director of Public Health

Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Overall Assurance Level

Assurance

Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	NAT

Review of documentation and discussions with officers found that Public Health have sufficient arrangements in order to plan the service's activities, including working alongside commissioned services, and have considered the risks associated with the business plan.

Fieldwork Services - Director of Adult Services

Exceptions Raised

Critical	High	Medium	Low
0	1	4	0

Overall Assurance Level

Limited Assurance

Agreed actions are scheduled to be completed by 31/03/2023

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	Limited Assurance
Reliability and Integrity of Data	NAT

One high risk exception was raised in relation to the lack of monitoring mechanisms in place against the Care Act. Four medium risk exceptions were also raised around evidence of discussion for care package budgets / changes to care package budgets, separate support plans and lack of care package reviews (recalls). Testing during this audit highlighted that there are inconsistencies in filing and naming of documents within System One, which makes it difficult to identify and locate specific documents. Discussion with senior Adults Care and Support officers in the audit exit meeting noted that System One does not have a workflow that aids practitioners in achieving compliance with the Care Act.

Shareholder Governance - Executive

Chief Internal Auditor attendance at Company Advisory Board following implementation of shareholder governance arrangements.

Partnership Governance - Executive

Exercise performed to ascertain clarity on partnership governance arrangements across the organisation resulting in additional controls being enacted to add transparency on assurance provisions.

Shearwater (Agency) - Director of Adults Services

Work performed to provide assurances on the procurement of additional staff via agency resulting in enhancements to processes already in place.

Weight Management Service Grant - Director of Adults Services

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Executive and Chief Internal Auditor to sign the declaration confirming compliance.

2SEAS PECS Grant - Director of Port

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Executive and Chief Internal Auditor to sign the declaration confirming compliance.

2SEAS SPEED Grant - Director of Port

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Executive and Chief Internal Auditor to sign the declaration confirming compliance.

9.2022/23 Follow-up Audits to date (21st February 2023)

Education Health Care Plans for up to 25 years old - Director of Children, Families and Education

Original Exceptions Raised

Critical	High	Medium	Low
0	2	4	1

Follow Up Exception Position

Critical	High	Medium	Low
0	2	3	0

Original Assurance Level

Reasonable Assurance

Follow Up Assurance Level

Reasonable Assurance

The new implantation date is schedule to be completed by April 2023

Follow Up Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Reasonable Assurance
Safeguarding of Assets	Assurance
Effectiveness and Efficiency of Operations	Limited Assurance
Reliability and Integrity of Data	NAT

The original audit highlighted two high, four medium and one low risk exception. Follow up testing confirmed that one high risk remains open in relation to preparing for adulthood assessments as no data was provided for the follow up review and therefore Internal Audit could not verify that the agreed actions have been implemented and one high risk exception is in progress in relation to the completion of annual reviews as the agreed actions are yet to be fully implemented due to staff shortages. In addition to this two medium risk exceptions remain open and one medium risk is in progress. Finally, one medium risk and one low risk exception has been closed and verified.

Gas Services - Director of Housing, Neighbourhood and Building Services

Original Exceptions Raised

Critical	High	Medium	Low
0	1	2	0

Follow Up Exception Position

Critical	High	Medium	Low
0	1	0	0

Original Assurance Level

Reasonable Assurance

Follow Up Assurance Level

Reasonable Assurance

The new implementation date is schedule to be completed by April 2024

Follow Up Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

The original audit review highlighted one high and two medium risk exceptions. The follow-up review confirmed that one high risk remains open while two medium risk exceptions have been closed and verified. The open high risk is in relation to the difficulties of obtaining access to properties which has resulted in a backlog of annual gas service certifications for PCC properties.

10. 2022/23 2nd Follow-up Audits to date (21st February 2023)

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/s still unmitigated. The audits below detail the position as at a 2nd review.

Modern Slavery - Director of Corporate Services

1st Follow-Up Exceptions Raised

Critical	High	Medium	Low
0	1	3	0

2nd Follow Up Exception Position

Critical	High	Medium	Low
0	1	1	0

1st Follow-Up Assurance Level

Limited Assurance

2nd Follow Up Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be completed by March 2023

2nd Follow Up Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Limited Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	NAT

The first follow-up confirmed that one high and three medium risk remained open. The second follow-up confirmed that the high-risk exception remains open while one medium risk exceptions is in progress. The remaining two medium risk exception has been closed and verified. The high risk in progress is due to high-risk contracts of Modern Slavery not being identified. There is however an upcoming model being created to determine higher risk contracts. In addition, an exercise by Internal Audit had been conducted to highlight the controls in place for the two highest risk directorates (Children's Social Care and Adult's Social Care) which indicated sufficient measures are not evident and therefore not in compliance with the Modern Slavery Act.

11. Exceptions

Of the 2022/23 full audits completed, 50 exceptions have been raised.*

Risk	Total
Critical Risk	0
High Risk	16
Medium Risk	28
Low Risk - Improvement	6

*These figures are excluding Portico and SLEP



Portsmouth
CITY COUNCIL

2023/24 Internal Audit Plan

Elizabeth Goodwin, Chief Internal Auditor

Executive Summary

This document sets out Internal Audit's programme of work for 2023/24, to provide Audit Committee with the opportunity to comment on the proposed coverage.

The Plan is informed by:

- The risk exposure of the council and is aligned to the strategic risk register.
- Legal requirements, specifically including grant sign offs by Internal Audit.
- Industry good practice and sector trends.
- Outcomes of prior Internal Audit reviews, for example all 2022/23 higher risk expectations will be followed up during 2023/24.
- Consultation with the Council's senior management, including the Chief Executive, Deputy Chief Executive and Director of Finance and Section 151 Officer.

Primarily the Plan is risk based, although a number of fundamental areas, for example key financial processes such as Payroll, Accounts Payable and Receivable, are reviewed every year.

Detail regarding the standards applicable to Internal Audit are set out in the Public Sector Internal Audit Standards:

<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Proposed Audits

Audits	Type	Audit Sponsors	Strategic Risks	Corporate Outcomes
Adult Social Care				
Quality Assurance	Full	Andy Biddle (Director Adult Social Care)	RISK03, RISK04, RISK11	PCC01, PCC05
Contract Management (ASC)	Full	Andy Biddle (Director Adult Social Care)	RISK03, RISK04, RISK11	PCC01, PCC05
Care Home Placements	Follow-up	Andy Biddle (Director Adult Social Care)	RISK02, RISK03, RISK04, RISK11	PCC01, PCC05
System One	Full	Andy Biddle (Director Adult Social Care)	RISK04, RISK08, RISK11,	PCC01
Direct Payments	Follow-up	Andy Biddle (Director Adult Social Care)	RISK03, RISK04, RISK11	PCC01, PCC05
Fieldwork Services OPPD	Follow-up	Andy Biddle (Director Adult Social Care)	RISK03, RISK04, RISK11	PCC01, PCC05
Children, Families and Education				
Prevention & Early Intervention	Full	Sarah Daly (Director of Children Services and Education)	RISK01, RISK11	PCC01, PCC04, PCC05
Special Education Needs & Disability	Full	Sarah Daly (Director of Children Services and Education)	RISK01, RISK11	PCC01, PCC04
Independent Reviewing & Child Protection	Full	Sarah Daly (Director of Children Services and Education)	RISK01, RISK11	PCC01, PCC04
Tangiers Road (Residential Unit)	Follow-up	Sarah Daly (Director of Children Services and Education)	RISK01, RISK11	PCC04

Through Care Team (0-25)	Full	Sarah Daly (Director of Children Services and Education)	RISK01, RISK04, RISK11	PCC04
WhatsApp Usage	Follow-up	Sarah Daly (Director of Children Services and Education)	RISK01, RISK04, RISK08	PCC04
Troubled Families Grant	Full	Sarah Daly (Director of Children Services and Education)	RISK01, RISK04	PCC01, PCC04, PCC05
Direct Payments (Verification)	Follow-up	Sarah Daly (Director of Children Services and Education)	RISK01, RISK04, RISK11	PCC01, PCC04
Manor Infants	Full	Sarah Daly (Director of Children Services and Education)	RISK11	PCC04
Orpheus Grant	Full	Sarah Daly (Director of Children Services and Education)	RISK01, RISK11	PCC04
Medina School	Follow-up	Sarah Daly (Director of Children Services and Education)	RISK11	PCC04
Wimbourne Primary	Follow-up	Sarah Daly (Director of Children Services and Education)	RISK11	PCC04
Craneswater School	Follow-up	Sarah Daly (Director of Children Services and Education)	RISK11	PCC04
Corporate Services				
IT Procurement, inventory & disposal	Full	Natasha Edmunds (Director of Corporate Services)	RISK07, RISK08, RISK11	PCC01, PCC05
Corporate Health & Safety	Follow-up	Natasha Edmunds (Director of Corporate Services)	RISK09, RISK12	PCC01, PCC03, PCC05
Website Accessibility Compliance	Follow-up	Natasha Edmunds (Director of Corporate Services)	RISK04, RISK06	PCC05
Executive				
Performance Management Reporting	Full	Natasha Edmunds (Director of Corporate Services)	ALL	ALL

Covert Surveillance	Full	Natasha Edmunds (Director of Corporate Services)	RISK06, RISK08	PCC01, PCC05
Shareholder Governance Companies	Full	Natasha Edmunds (Director of Corporate Services)	RISK06, RISK10, RISK11, RISK13	PCC01, PCC02, PCC05
Culture, Leisure and Regulatory Services				
Cemeteries	Follow-up	Stephen Baily (Director of Culture Leisure and Regulatory Services)	RISK06, RISK09,	PCC03, PCC05
Food, Health & Safety	Full	Stephen Baily (Director of Culture Leisure and Regulatory Services)	RISK06, RISK09	PCC01, PCC03
Water Safety	Follow-up	Stephen Baily (Director of Culture Leisure and Regulatory Services)	RISK06, RISK09	PCC01, PCC03, PCC04, PCC05
Trading Standards	Follow-up	Stephen Baily (Director of Culture Leisure and Regulatory Services)	RISK06, RISK09	PCC03
HIVE	Follow-up	Stephen Baily (Director of Culture Leisure and Regulatory Services)	RISK10	PCC01, PCC05
Finance and Resources				
Council Tax and NNDR	Full	Chris Ward (Director of Finance and Resources)	RISK11	ALL
Housing & Council Tax Benefits	Full	Chris Ward (Director of Finance and Resources)	RISK04, RISK06, RISK11	PCC01, PCC04, PCC05
Accounts Payable	Full	Chris Ward (Director of Finance and Resources)	RISK04, RISK07, RISK08, RISK11	PCC01, PCC04, PCC05
Accounts Receivable	Full	Chris Ward (Director of Finance and Resources)	RISK04, RISK07, RISK08, RISK12	PCC01, PCC04, PCC05
Payroll/Pension	Full	Chris Ward (Director of Finance and Resources)	RISK08, RISK11	PCC01, PCC04, PCC05
Treasury Management	Full	Chris Ward (Director of Finance and Resources)	RISK04, RISK06, RISK11	PCC01, PCC04

Debt Recovery (External)	Full	Chris Ward (Director of Finance and Resources)	RISK04, RISK07, RISK11	PCC01, PCC04, PCC05
PFI Contract (Claims)	Full	Chris Ward (Director of Finance and Resources)	RISK10, RISK11	PCC03, PCC04,
Fusion & HR General Controls	Follow-up	Chris Ward (Director of Finance and Resources)	ALL	ALL
Procurement	Full	Chris Ward (Director of Finance and Resources)	RISK03, RISK04, RISK06, RISK11	PCC01, PCC02
Key Controls	Full	Chris Ward (Director of Finance and Resources)	ALL	ALL
Housing Neighbourhood and Building Services				
Rent Income	Follow-up	James Hill (Director of Housing Neighbourhoods and Building Services)	RISK04, RISK11, RISK13	PCC01, PCC02, PCC04, PCC05
Plant (Lifts & Mechanical)	Full	James Hill (Director of Housing Neighbourhoods and Building Services)	RISK04, RISK09, RISK11	PCC01, PCC03, PCC04, PCC05
Reactive Maintenance	Full	James Hill (Director of Housing Neighbourhoods and Building Services)	RISK06, RISK09, RISK10, RISK11	PCC01, PCC03, PCC04, PCC05
Damp & Mould	Full	James Hill (Director of Housing Neighbourhoods and Building Services)	RISK04, RISK09, RISK11	PCC01, PCC03, PCC04, PCC05
Disrepair Claims	Full	James Hill (Director of Housing Neighbourhoods and Building Services)	RISK09, RISK11	PCC01, PCC03, PCC04, PCC05
Asbestos	Full	James Hill (Director of Housing Neighbourhoods and Building Services)	RISK09	PCC01, PCC03, PCC04, PCC05
Gas Services (includes servicing & certification)	Follow-up	James Hill (Director of Housing Neighbourhoods and Building Services)	RISK09,	PCC01, PCC03, PCC04, PCC05
Disabled Facilities Grant	Full	James Hill (Director of Housing Neighbourhoods and Building Services)	RISK04, RISK11	PCC01, PCC03, PCC04, PCC05, PCC05
CCTV Corporate	Full	James Hill (Director of Housing Neighbourhoods and Building Services)	RISK06, RISK08, RISK09	PCC01, PCC03, PCC04

Port				
Accounts Payable & Receivable (Port Finance)	Follow-up	Mike Sellers (Port Director)	RISK04, RISK07, RISK08, RISK11	PCC01, PCC04, PCC05
Income Dues Compliance	Follow-up	Mike Sellers (Port Director)	RISK11	PCC02
Emergency Planning Disaster Recovery	Full	Mike Sellers (Port Director)	RISK06, RISK07, RISK12,	PCC01, PCC03, PCC04, PCC05
Capital Repairs/Projects	Full	Mike Sellers (Port Director)	RISK10, RISK11, RISK13	PCC02
Port Health & Safety	Full	Mike Sellers (Port Director)	RISK09	PCC03, PCC04, PCC05
2SEAS SPEED Grant	Full	Mike Sellers (Port Director)	RISK11	PCC02, PCC03
Public Health				
Local Health Resilience Planning	Full	Helen Atkinson (Director of Public Health)	RISK09, RISK11, RISK12	PCC01, PCC04
Regeneration				
CIL (Community Infrastructure Levy)	Follow-up	Tristan Samuels (Director of Regeneration)	RISK11	PCC02
Building Control Fees/Income	Follow-up	Tristan Samuels (Director of Regeneration)	RISK06, RISK09, RISK10,	PCC01, PCC02, PCC03
Planning & Enforcement	Full	Tristan Samuels (Director of Regeneration)	RISK09, RISK11, RISK13	PCC02, PCC03, PCC05
Commercial Rents & Leases	Follow-up	Tristan Samuels (Director of Regeneration)	RISK11, RISK13	PCC01, PCC02, PCC03, PCC04,
Local Transport Capital Grant	Full	Tristan Samuels (Director of Regeneration)	RISK05, RISK11, RISK13	PCC01, PCC03, PCC04
Home to School Transport	Follow-up	Tristan Samuels (Director of Regeneration)	RISK01, RISK06, RISK08, RISK11	PCC01, PCC03, PCC04, PCC05

Hire Cars	Follow-up	Tristan Samuels (Director of Regeneration)	RISK09, RISK11	PCC01, PCC05
Transforming City Fund	Full	Tristan Samuels (Director of Regeneration)	RISK10, RISK11, RISK13	PCC02, PCC03
Future High Street Funding	Full	Tristan Samuels (Director of Regeneration)	RISK10, RISK11, RISK13	PCC02, PCC03
Lakeside	Full	Tristan Samuels (Director of Regeneration)	RISK11, RISK13	PCC01, PCC02, PCC03, PCC04
Bus Subsidy Grant	Full	Tristan Samuels (Director of Regeneration)	RISK11	PCC01, PCC03

Risks

Ref	Risk
RISK01	Pressures lead to increased caseloads and therefore reduced practice quality in children's social care, increasing vulnerability of children and leading to a preventable incident.
RISK02	Challenges in recruiting and retaining key staff and skills into the city, meaning that key services are compromised.
RISK03	Pressures in the local market for care services, including residential and domiciliary care, mean that care of vulnerable adults is compromised, leading to a preventable incident.
RISK04	Reduction in services for vulnerable people, such as domestic violence and substance misuse service, lead to poorer outcomes and increased demand for other services.
RISK05	Failure to protect the city environment, including in relation to air quality, flood defence and natural and heritage assets.
RISK06	Exposure to national level political and legislative change (such as welfare reform) including impact on scope of duties, powers, responsibilities and service demand.
RISK07	Exposure to system failure, including support expiry, single points of failure, cyber
RISK08	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures
RISK09	Failure to fulfil health and safety responsibilities, including in respect of operational and heritage buildings.
RISK10	Increased partnering, alternative delivery models and commercial approaches increase pressure on capacity, challenge governance arrangements, and increase risk of income loss if arrangements cease.
RISK11	Addressing underlying budget pressures and delivering effective and sustainable services, particularly in children's and adults' services.
RISK12	Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.
RISK13	Failure to deliver strategic improvements for the city, due to wider market factors

Objectives

Ref	Outcome
PCC01	Make Portsmouth a city that works together, enabling communities to thrive and people to live healthily, safe and independent lives.
PCC02	Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit.
PCC03	Make our city cleaner, safer and greener.
PCC04	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures.
PCC05	Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do.

Agenda Item 9



THIS ITEM IS FOR INFORMATION ONLY

(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)

Title of meeting:	Governance & Audit & Standards Committee
Subject:	Data Security Breaches Report
Date of meeting:	8 March 2023
Report by:	Elizabeth Goodwin, Senior Information Risk Owner
Wards affected:	All

1. Requested by

Governance & Audit & Standards Committee

2. Purpose

To inform the Committee of any Data Security Breaches and enable them to determine whether any trends appear and whether any further actions should be recommended.

3. Information Requested

The appendix provides an overview of the breaches that have occurred since September 2022.

It should be noted that, whilst the number of breaches is higher when compared to the same period last year (58 between September 2021 and February 2022) none of them reached the threshold for reporting to the Information Commissioner's Office.

73% of all incidents were as a result of human error. The mandatory Cyber Security and Data Protection training modules that all staff must complete annually are currently being updated and will include additional material to ensure there is learning from the breaches.

An online Data Security Incident Report Form is also being developed to support both the reporting of incidents and corrective action being taken in a timely manner. It will also record any agreed changes to processes to reduce the risk of incidents recurring so that this aspect can be more easily monitored.

THIS ITEM IS FOR INFORMATION ONLY

(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)

The Information Governance Team will continue to work with all areas of the council to reduce the number of breaches and report to this committee.

.....
Signed by (Director)

Appendices:

One Appendix - Appendix A

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	



Portsmouth
CITY COUNCIL

**Data Security Incident Report
September 2022 to February 2023**

Executive Summary

This report has been prepared to provide an update on data breach incidents for the period Wednesday, September 14, 2022, to Thursday, February 23, 2023.

Clear guidance is provided to staff, via training and Policy Hub, regarding what constitutes a data breach and the steps they should take when a potential data breach is identified.

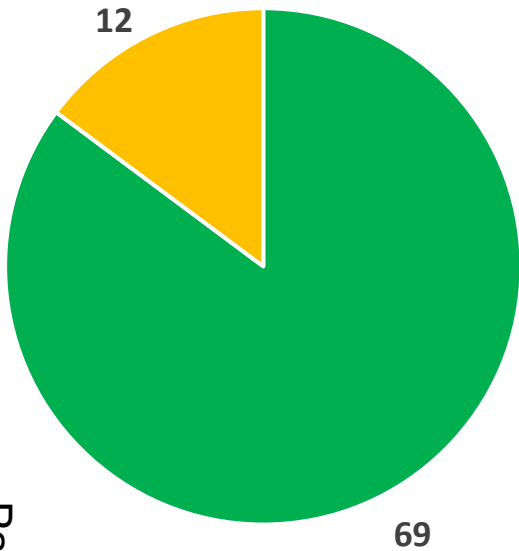
The Council's response to potential data breaches is managed by a central team, following the stages summarised below:

- 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 81 data breaches, 69 being notified to the central team in under 72 hours and 0 requiring notification to the ICO.

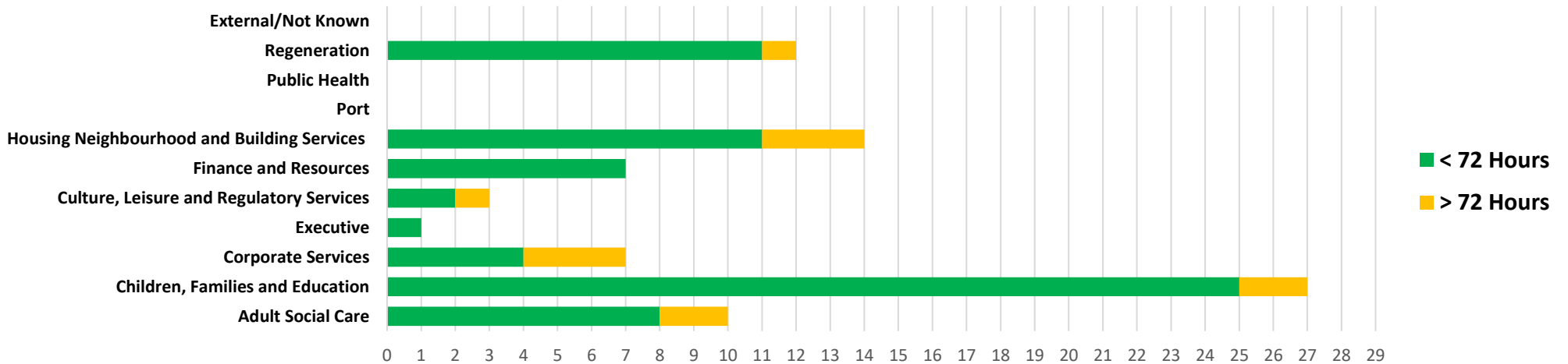
A detailed breakdown of data breaches summarised herein is provided at the end of the report.

Response Time

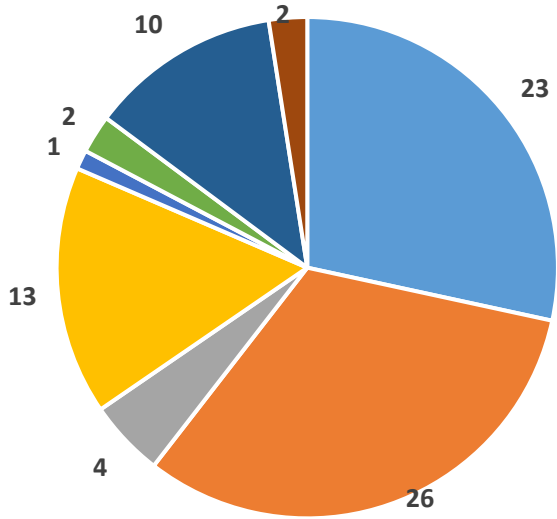


	< 72 hours	> 72 hours	TOTAL
Adult Social Care	8	2	10
Children, Families and Education	25	2	27
Corporate Services	4	2	6
Executive	1	0	1
Culture, Leisure and Regulatory Services	2	1	3
Finance and Resources	7	0	7
Housing Neighbourhood and Building Services	11	3	14
Port	0	0	0
Public Health	0	0	0
Regeneration	11	1	12
External/Not Known	0	0	0
TOTAL	69	12	81

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.

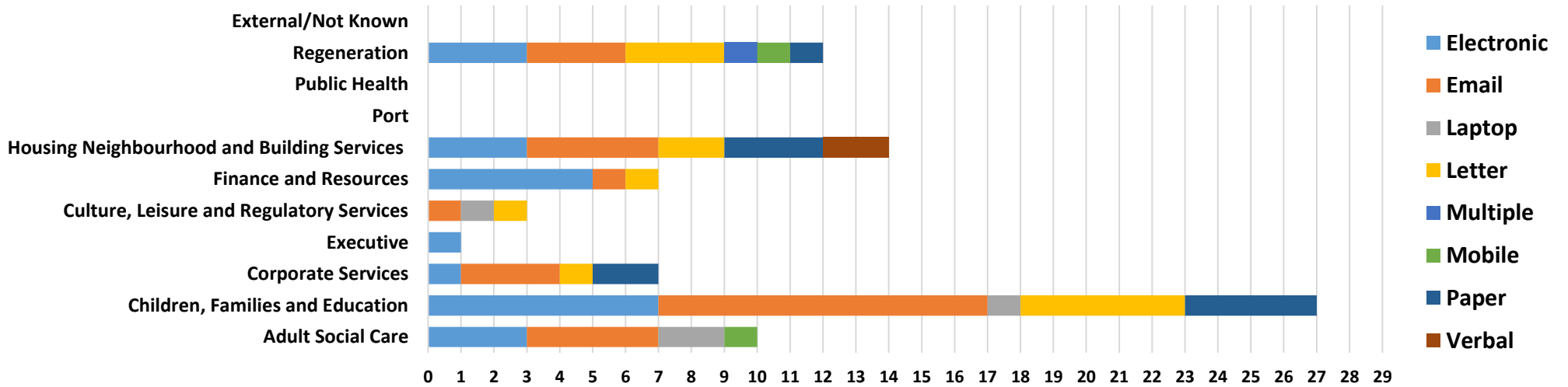


Medium

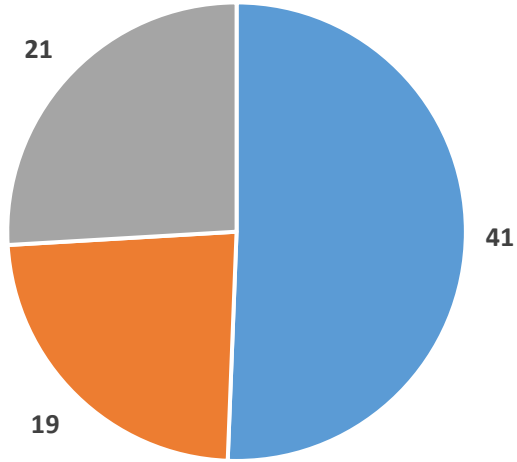


	Electronic	Email	Laptop	Letter	Multiple	Mobile	Paper	Verbal	TOTAL
Adult Social Care	3	4	2	0	0	1	0	0	10
Children, Families and Education	7	10	1	5	0	0	4	0	27
Corporate Services	1	3	0	1	0	0	2	0	7
Executive	1	0	0	0	0	0	0	0	1
Culture, Leisure and Regulatory Services	0	1	1	1	0	0	0	0	3
Finance and Resources	5	1	0	1	0	0	0	0	7
Housing Neighbourhood and Building Services	3	4	0	2	0	0	3	2	14
Port	0	0	0	0	0	0	0	0	0
Public Health	0	0	0	0	0	0	0	0	0
Regeneration	3	3	0	3	1	1	1	0	12
External/Not Known	0	0	0	0	0	0	0	0	0
TOTAL	23	26	4	13	1	2	10	2	81

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 detail summary, towards the back of this report.



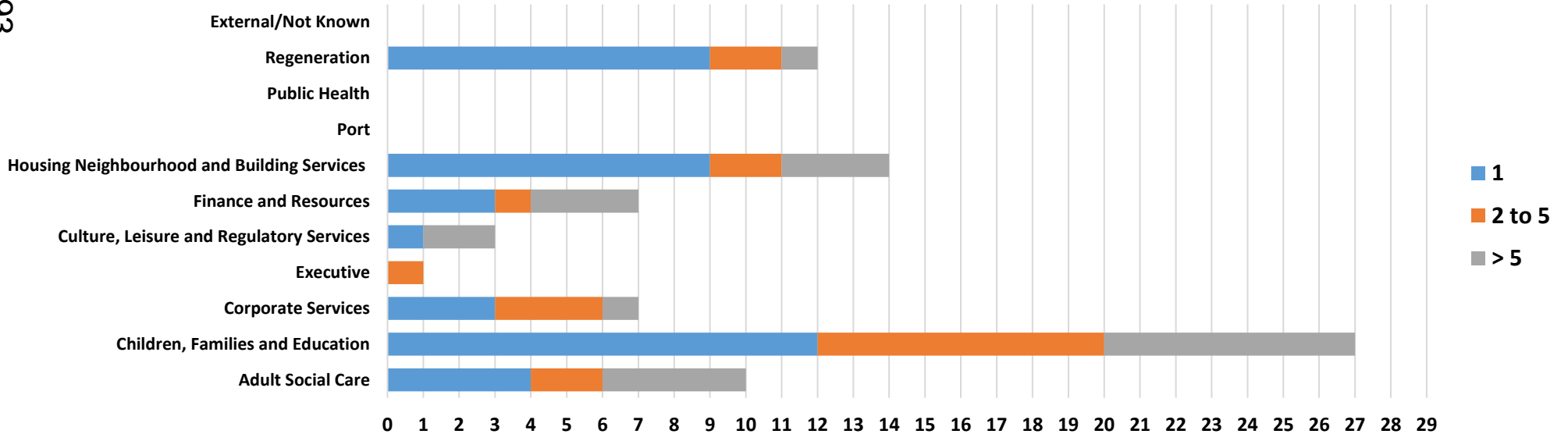
Number Impacted



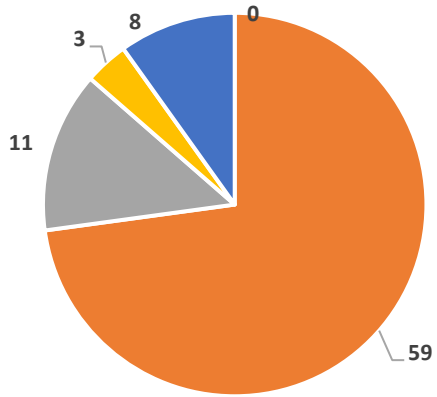
	1	2 to 5	> 5	TOTAL
Adult Social Care	4	2	4	10
Children, Families and Education	12	8	7	27
Corporate Services	3	3	1	7
Executive	0	1	0	1
Culture, Leisure and Regulatory Services	1	0	2	3
Finance and Resources	3	1	3	7
Housing Neighbourhood and Building Services	9	2	3	14
Port	0	0	0	0
Public Health	0	0	0	0
Regeneration	9	2	1	12
External/Not Known	0	0	0	0
TOTAL	41	19	21	81

Totals refer to the number of individuals either confirmed or likely to have been impacted.

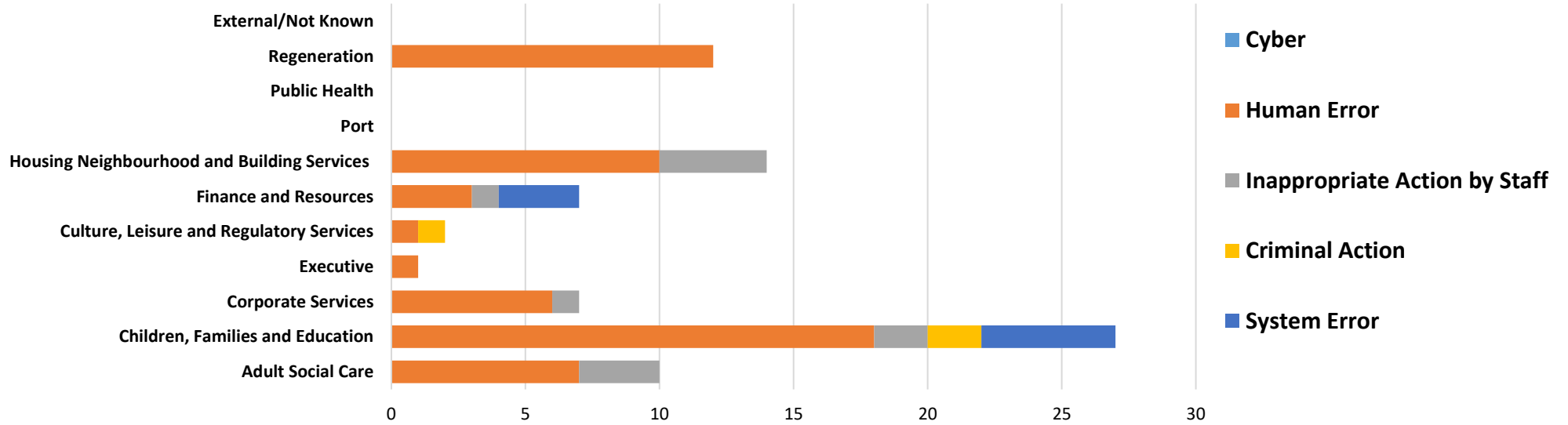
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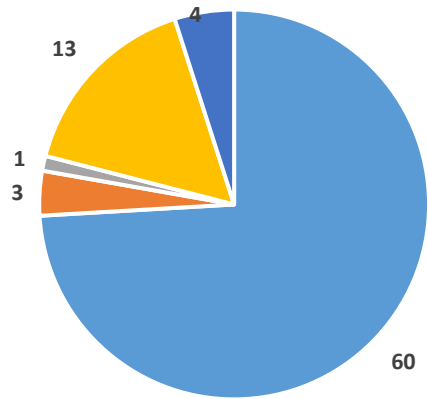
Root Cause



	Cyber	Human Error	Inappropriate Action by Staff	Criminal Action	System Error	TOTAL
Adult Social Care	0	8	3	0	0	10
Children, Families and Education	0	18	2	2	5	27
Corporate Services	0	6	1	0	0	7
Executive	0	1	0	0	0	1
Culture, Leisure and Regulatory Services	0	1	0	1	0	2
Finance and Resources	0	3	1	0	3	7
Housing Neighbourhood and Building Services	0	10	4	0	0	14
Port	0	0	0	0	0	0
Public Health	0	0	0	0	0	0
Regeneration	0	12	0	0	0	12
External/Not Known	0	0	0	0	0	0
TOTAL	0	59	11	3	8	81

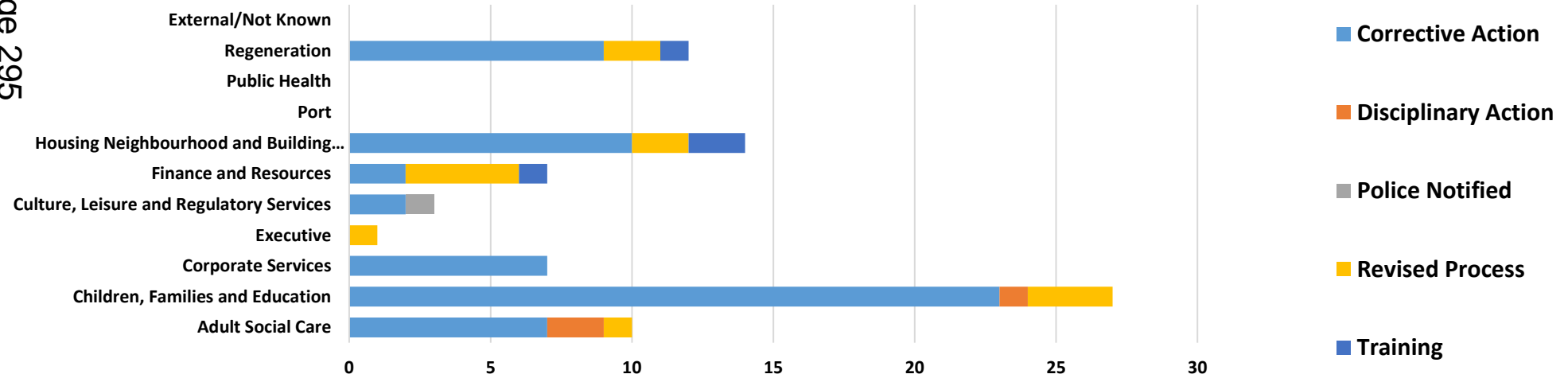


Action Taken



	Corrective Action	Disciplinary	Police Notified	Revised Process	Training	TOTAL
Adult Social Care	7	2	0	1	0	10
Children, Families and Education	23	1	0	3	0	27
Corporate Services	7	0	0	0	0	7
Executive	0	0	0	1	0	1
Culture, Leisure and Regulatory Services	2	0	1	0	0	3
Finance and Resources	2	0	0	4	1	7
Housing Neighbourhood and Building Services	10	0	0	2	2	14
Port	0	0	0	0	0	0
Public Health	0	0	0	0	0	0
Regeneration	9	0	0	2	1	12
External/Not Known	0	0	0	0	0	0
TOTAL	60	3	1	13	4	81

Apologies are routinely given, to data subject(s) and to others adversely impacted by data breaches.



Quarterly Trends- 2022

Number of Data Security Breaches by Directorate

	Q1	Q2	Q3	Q4	Total
Adult Social Care	1	0	1	6	8
Children, Families and Education	14	12	10	13	51
Corporate Services	5	3	3	5	16
Culture, Leisure and Regulatory Services	0	0	0	1	1
Executive	0	0	0	0	0
Finance and Resources	3	7	1	4	15
Housing Neighbourhood and Building Services	2	11	5	5	23
Public Health	1	0	0	0	1
Regeneration	5	3	1	7	16

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
DB2022098	Housing Neighbourhood and Building Services	Y	N	Human Error	Training	PCC device missing after being in locker for 2 weeks
DB2022099	Finance and Resources	Y	N	Human Error	Training	Email sent to incorrect email address
DB2022102	Children, Families and Education	Y	N	Human Error	Revised Process	Police report misfiled and included in reports for childcare conference
DB2022103	Housing Neighbourhood and Building Services	N	N	Human Error	Corrective Action	Letter to housing benefit claimant sent to their former address and opened by landlord
DB2022104	Regeneration	N	N	Human Error	Corrective Action	Telephone number not redacted from objection on planning portal.
DB2022105	Housing Neighbourhood and Building Services	Y	N	Human Error	Multiple	Bin bag found in car park of housing office containing notebook and forms with some personal data on
DB2022106	Corporate Services	Y	N	Human Error	Corrective Action	Documents emailed to wrong internal recipient
DB2022107	Housing Neighbourhood and Building Services	N	N	Human Error	Corrective Action	Letter set to incorrect address

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2022108	Children, Families and Education	Y	N	System Error	Multiple	Safe containing belongings for Looked After Children not kept secure.
DB2022109	Children, Families and Education	Y	N	Human Error	Multiple	Email sent to incorrect mailing list and with all recipients in the "to" field.
DB2022110	Children, Families and Education	Y	N	Human Error	Corrective Action	Email sent to wrong internal email address
DB2022111	Children, Families and Education	N	N	Human Error	Corrective Action	Email sent to incorrect member of staff (with the same name as the correct member of staff)
DB2022112	Children, Families and Education	Y	N	Human Error	Corrective Action	Lost mobile phone.
DB2022113	Regeneration	Y	N	Human Error	Corrective Action	Bus lane PCN printer set to print both sides in error. PCN sent with another on the reverse.
DB2022114	Adult Social Care	Y	N	Human Error	Corrective Action	Photograph of care home resident published in the News and on social media without consent
DB2022115	Housing Neighbourhood and Building Services	N	N	Human Error	Corrective Action	Member of staff set up corporate phone as a personal phone. Work contacts shared to personal Gmail account.
DB2022116	Children, Families and Education	Y	N	Human Error	Corrective Action	Notebook left at the home of a service user who threatened to disclose the personal information it contained via social media
DB2022117	Children, Families and Education	Y	N	Human Error	Corrective Action	Letter to a child's father with no parental responsibility.
DB2022118	Executive	Y	N	Human Error	Revised Process	Home addresses of two councillors published in error in connection with declaration of interests

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2022119	Corporate Services	N	N	Inappropriate Action by Staff	Multiple	Member of staff left the council and did not return laptop
DB2022120	Finance and Resources	Y	N	System Error	Revised Process	Remittance Advices sent to incorrect address due to change of address not being actioned.
DB2022121	Housing Neighbourhood and Building Services	Y	N	Human Error	Revised Process	Email sent to incorrect recipient
DB2022122	Finance & Resources	Y	N	System Error	Revised Process	Payroll receiving bogus change of band detail requests for various employees
DB2022123	Children, Families and Education	Y	N	Human Error	Corrective Action	Email sent to wrong school
DB2022124	Children, Families and Education	Y	N	Human Error	Multiple	Data Subject Access Request included information relating to another person in error.
DB2022125	Children, Families and Education	Y	N	Human Error	Corrective Action	Letter sent to incorrect address
DB2022126	Children, Families and Education	Y	N	System Error	Multiple	Overpayment invoice and BACs remittances and final demand for payment for foster carer sent to old address.
DB2022127	Children, Families and Education	Y	N	Human Error	Revised Process	Paperwork left at service user's home in error
DB2022128	Housing Neighbourhood and Building Services	Y	N	Inappropriate Action by Staff	Corrective Action	Allegation of breach of confidentiality by a member of staff disclosing information to a resident's neighbour.
DB2022129	Corporate Services	N	N	Human Error	Corrective Action	Email sent to wrong internal email address

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2022130	Adult Social Care	Y	N	Inappropriate Action by Staff	Disciplinary Action	Unauthorised disclosure of personal and falsified information to the Office of the Public Guardian
DB2022131	Adult Social Care	Y	N	Inappropriate Action by Staff	Disciplinary Action	Unauthorised access to records in SystemOne (Adult Social Care case management system)
DB2022132	Regeneration	Y	N	Human Error	Corrective Action	Email sent to incorrect recipient
DB2022133	Housing Neighbourhood and Building Services	Y	N	Human Error	Corrective Action	Incorrect document attached to email and sent to resident
DB2022134	Children, Families and Education	Y	N	System Error	Corrective Action	Data uploaded to CSC Sentinel Database from Health records contained confidential addresses of children. Information was then available to schools in error
DB2022135	Adult Social Care	Y	N	Human Error	Corrective Action	Care and lifting plan sent to wrong care home
DB2022136	Regeneration	Y	N	Human Error	Corrective Action	Payment receipt emailed to the wrong person
DB2022137	Children, Families and Education	Y	N	System Error	Corrective Action	3 users of Schools Secure Environment given incorrect access to system so could see all schools' files
DB2022138	Finance and Resources	Y	N	System Error	Multiple	Talent Pool data visible to all PCC hiring managers in Fusion in error
DB2022139	Children, Families and Education	Y	N	Inappropriate Action by Staff	Corrective Action	Bitlocker code and log-in details written down and stuck to PCC laptop
DB2022140	Housing Neighbourhood and Building Services	Y	N	Human Error	Revised Process	Email sent to wrong address of someone with the same name as the intended recipient
DB2022141	Finance and Resources	Y	N	Inappropriate Action by Staff	Revised Process	Inappropriate access to system used to reset staff members password

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2022142	Children, Families and Education	Y	N	Criminal Action	Multiple	Letter concerning a child's placement posted on social media by a parent
DB2022143	Housing Neighbourhood and Building Services	Y	N	Human Error	Corrective Action	Email addresses included in "to" field in error so visible to all recipients
DB2022144	Children, Families and Education	Y	N	System Error	Corrective Action	Data sent to schools included pupil location data for other schools.
DB2022145	Children, Families and Education	Y	N	Criminal Action	Multiple	Laptop stolen from boot of staff member's car
DB2022146	Corporate Services	Y	N	Human Error	Corrective Action	PCC staff member's contract sent to their former line manager in error
DB2023001	Children, Families and Education	N	N		Corrective Action	Letter sent to wrong address and returned opened
DB2023002	Children, Families and Education	Y	N	Human Error	Corrective Action	Email sent to wrong recipients
DB2023003	Corporate Services	Y	N	Human Error	Corrective Action	Bus pass sent to incorrect address
DB2023004	Children, Families and Education	Y	N	Human Error	Corrective Action	Letter sent to incorrect address and returned as 'not at this address'
DB2023005	Regeneration	Y	N	Human Error	Corrective Action	Signatures unredacted from legal agreement on planning portal information
DB2023007	Regeneration	Y	N	Human Error	Multiple	Lost PCC mobile phone (PIN protected)

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2023008	Housing Neighbourhood and Building Services	Y	N	Inappropriate Action by Staff	Training	Verbal breach of confidentiality. Information about one family member disclosed to another
DB2023009	Adult Social Care	N	N	Human Error	Corrective Action	Lost PCC mobile phone (PIN protected)
DB2023010	Regeneration	Y	N	Human Error	Revised Process	Penalty Charge Notice sent to the wrong person
DB2023011	Finance and Resources	Y	N	Human Error	Revised Process	Payroll information sent to the wrong school
DB2023012	Culture, Leisure and Regulatory Services	N	N	Human Error	Multiple	Planning permission objections wrongfully disclosed to applicants.
DB2023013	Regeneration	Y	N	Human Error	Corrective Action	Penalty charge notice sent to wrong address
DB2023014	Children, Families and Education	Y	N	Human Error	Corrective Action	Email intended for health visitor sent to a parent by mistake
DB2023015	Adult Social Care	Y	N	Human Error	Revised Process	Emails sent to wrong recipients
DB2023016	Corporate Services	N	N	Human Error	Corrective Action	Unable to retrieve PCC laptop from building due to serious structural damage
DB2023017	Housing Neighbourhood and Building Services	Y	N	Inappropriate Action by Staff	Multiple	Corporate device not wiped or re-setup before being reallocated
DB2023018	Housing Neighbourhood and Building Services	Y	N	Human Error	Corrective Action	Letter intended for a landlord sent to the wrong address
DB2023019	Culture, Leisure and Regulatory Services	Y	N	Criminal Action	Police Notified	Laptop stolen from staff member's car

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2023020	Corporate Services	Y	N	Human Error		Lost business card with resident's details noted on it
DB2023021	Regeneration	Y	N	Human Error	Multiple	Two incorrect Vehicle Registration Numbers recorded by ANPR cameras and sent to the DVLA. Penalty Charge Notice sent to the wrong person.
DB2023022	Regeneration	Y	N	Human Error	Multiple	Planning enforcement email sent to wrong recipient
13.11.2022	Adult Social Care	Y	N	Human Error	Corrective Action	Email relating to client sent to incorrect care agency
14.12.2022	Adult Social Care	N	N	Inappropriate Action by Staff	Corrective Action	Worker inappropriately accessed SystemOne
15.12.2022	Adult Social Care	Y	N	Human Error	Corrective Action	Email sent to incorrect email address.
16.12.2022	Adult Social Care	Y	N	Human Error	Corrective Action	Note entered onto wrong client record within SystemOne
DB2023023	Children, Families and Education	Y	N	Human Error	Revised Process	Letter sent out to various recipients with incorrect name copied as a reference
DB2023024	Children, Families and Education	Y	N	Human Error	Corrective Action	Email with pupil name sent to the wrong school
DB2023025	Finance and Resources	Y	N	Human Error	Corrective Action	2 letters inserted into an envelope in error resulting in an incorrect letter being sent to a resident.
DB2023026	Regeneration	Y	N	Human Error	Revised Process	Incorrect Vehicle Registration Number recorded so incorrect details sought from DVLA & Notice to Owner sent to wrong person
DB2023027	Regeneration	Y	N	Human Error	Training	Parking email sent to city helpdesk with incorrect details on.
DB2023028	Housing Neighbourhood	Y	N	Inappropriate Action by Staff	Multiple	Laptop and paperwork stolen from boot of car

16
2022
303

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
	and Building Services					
DB2023029	Culture, Leisure and Regulatory Services	Y	N		Corrective Action	Leisure card posted to incorrect address
DB2023030	Children, Families and Education	Y	N	Human Error	Corrective Action	Email shared with incorrect recipients
DB2023031	Children, Families and Education	Y	N	Inappropriate Action by Staff	Disciplinary Action	Log-in details written on post-it note and stuck to laptop.

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 comment's 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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Title of meeting:	Governance and Audit and Standards Committee
Date of meeting:	8 March 2023
Subject:	Appointment of Independent Person
Report by:	City Solicitor
Wards affected:	N/A
Key decision:	No
Full Council decision:	Yes

1. Purpose of report

To consider the re-appointment of an Independent Person whose term of office expires this May 2023, pursuant to the provisions of Section 28 of the Localism Act 2011.

2. Recommended that

- 1. The Governance and Audit and Standards Committee recommend to Council to re-appoint Mr John Young as Independent Person for a further three years from 1 May 2023 through to 30 April 2026 and;**
- 2. The Governance and Audit and Standards Committee thank Mr Mark Walsh for his 3 years' service as an Independent Person and;**
- 3. following the Local Elections May 2023, that a new Independent Person is sought to fill the vacant position.**

3. Background

- 3.1. Following consideration by Governance and Audit and Standards Committee and Council in March 2018, the Council agreed to the appointment of three Independent Persons for a period of 3 years.
- 3.2. Since these initial appointments Governance and Audit and Standards Committee and Council in March 2020, both increased the number of Independent Persons to five in total.
- 3.3. Following consultation with the two Independent Persons whose terms shall expire May 2023, Mr Young has accepted the offer to continue in the role, whereas Mr Walsh has declined to pursue other interests and opportunities.

4. Reasons for recommendations

- 4.1. Independent Persons are required under the Arrangements for Assessment, Investigation and Determination of Complaints made against Councillors.
- 4.2. The role of Independent Person is entirely voluntary, with no remuneration or benefits, the Monitoring Officer and the Council is therefore grateful of those who give their time in supporting the Council in this important process.
- 4.3. It is considered that the re-appointment of the subsequent vacant position will continue to maintain the flexibility to consider member complaints in a timely manner.
- 4.4. That the process to find a suitable person commences in the new municipal year so that the Chair and Vice Chair are appointed for interviews and that the subsequent report be brought to Governance & Audit & Standards Committee to recommend the appointment to a future full Council meeting.

5. Role of the Independent Person

- 5.1. The Council is required to appoint at least one Independent Person. These are persons who must have no connection with the Council.
- 5.2. They do not have decision making powers and their role is purely to advise.
- 5.3. Their functions are:-
 - 5.3.1. To be consulted by the Council before it makes a finding as to whether a member has failed to comply with the Code of Conduct or decides what action is to be taken in respect of that Member;
 - 5.3.2. To be consulted by the Council in respect of a Code of Conduct complaint at any other stage if required; and
 - 5.3.3. To be consulted by a Member or co-opted Member of the Authority against whom a complaint has been made if required.

6. Procedure for appointment

The procedure for the appointment of the Independent Persons:

- 6.1. The role is advertised on the Council's website for applications (and by invitation should any potential candidates be recommended);
- 6.2. An interview panel comprising the Chair and Vice-Chair of Governance and Audit and Standards Committee together with the Monitoring Officer met to consider shortlisted applicants;

6.3. The successful candidates to be recommended by Governance and Audit and Standards Committee to Council for formal appointment for a three year term.

7. Remuneration

Expenses may be claimed by the Independent Person and it is proposed that this provision continues.

8. Integrated impact assessment

This report does not require and Integrated impact assessment as it does not propose any new or changed services, policies or strategies.

9. Legal implications

The legal implications are embodied within this report.

10. Director of Finance's comments

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

.....
Signed by:

Appendices: Nil

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

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

Title of document	Location

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Agenda Item 12

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Portsmouth
CITY COUNCIL

Title of meeting:	Governance & Audit & Standards Committee
Subject:	Procurement Management Information
Date of meeting:	8 th March 2023
Report by:	Richard Lock - Assistant Director, Procurement
Wards affected:	N/A

1. Requested by

Governance & Audit & 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.

To update the Committee on progress developing procurement performance reporting.

3. Information Requested

Performance Monitoring Elements & Base Line Data Reports

The report covers 3 key performance monitoring elements:

- Spend compliance
- Contract award via waiver
- Contract management performance monitoring

At the request of the Committee at the meeting held on 24th July 2020 the base line data used to calculate summary figures is included as the following exempt appendixes:

- EXEMPT - G&A&S - Procurement MI - App 1 Spend Compliance Jan 23
- EXEMPT - G&A&S - Procurement MI - App 2 Waivers Nov 22 - Jan 23
- EXEMPT - G&A&S - Procurement MI - App 3 Contract KPIs Nov 22 - Jan 23

A further exempt appendix has also been included for which covers analysis of the data by procurement and which includes for some commercially sensitive information:

- EXEMPT - G&A&S - App 4 - Procurement Data Analysis - Nov 22 - Jan 23

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CITY COUNCIL

Performance Comparison & Reports Development

The report provides, where possible, a performance comparison to the data provided within the last report taken to the committee on 23rd November 2022.

However, as Procurement are working to develop the reports in order to provide a more complete, accurate and relevant assessment of performance this will have some impact on the granularity of comparison that can be achieved at present and which will continue until the new reporting models are fully implemented.

Exempt Information

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

Introduction

The table on the following page provides a comparison of spend compliance from the last report taken to Committee which covered spend in October 2022 to the latest whole month spend information taken from January 2023.

Context & Current Process

The Local Government Transparency Code (2015) requires that all contracts with a lifetime value that exceeds £5,000 are published. The Council monitors and enforces compliance by requiring every purchase order raised through Oracle FUSION with a distribution value of £5,000 or above is linked to a contract entry which has been raised and published on the Council's InTend system.

Further to the Code requirements, the Council is also required under Public Contracts regulations (2015) to publish information on awarded contracts to the central Contracts Finder system for all contracts with a lifetime value of over £30,000.

Compliance is measured initially by reporting on spend linked to a contract entry which has been raised on the council's InTend system.

It should be noted that the 'compliance' definition relates purely to meeting the requirements of the Local Government Transparency Code (2015) and the financial controls put in place by the council. Broader compliance with wider legislation such as the Public Contracts Regulations (2015) and Public Concessions Regulations (2016) as well as the rules set out within the council's constitutional Contract Procedure Rules is covered under Section 2 of this report.

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Report Development Status & Future Development Proposals

As per the last report taken to Committee procurement are now able to report on spend transacted via all systems rather than just payments made via Oracle FUSION, These additional systems include for:

- MOSAIC - Children's Social Care spend
- CONTROCC - Adult Social care spend
- SystemsLink - Utilities spend (Gas, Electricity, Phone, etc.)
- Scala - Port spend

Since the last Committee meeting financial controls on above £5k spend processed via Scala have been developed. Work has also progressed in respect of analysis of spend processed via CONTROCC and SystemsLink. These controls are not currently automated so further work will be required to develop and implement processes to ensure that contract entries are raised promptly at commencement of contract rather than at point of check.

Spend and compliance statistics in respect of all systems is now also included for the first time within this report. However, it should be noted that protocols for analysis of spend via other systems need to be developed and as such some of the analysis and associated statistics are based upon assumptions, that although realistic, will require further testing.

Two other systems / purchasing routes are not yet included for within the reports, which are:

- CHAPS - used to process PFI payments to partner highways maintenance contractor
- Purchasing Cards - used typically for lower value transactions as per Council policy

Further work will be needed to investigate how spend via these systems / methods can be simply reported upon and compliance controls subsequently implemented.

Whilst the current inability to provide full compliance reporting across all systems is requires addressing, it is unlikely that after further analysis there will be many or any significant instances of higher value / risk non-compliance with Public Contracts Regulations (2015) requirements as:

- Procurement can provide assurance that all utilities contracts which SystemsLink transactions relate have been compliantly procured
- Higher value transactions processed via CONTROCC for adult social care services, via MOSAIC for children's social care services and via SCALA for Port transactions should be able to be tracked back to approved contracts through application of the Council's Procurement Gateway Process which is applied to all contracts with a lifetime value of over £100,000
- PFI payments for Partner Highways Maintenance Contract can be traced back to a compliant contract entry on the Council's InTend contracts register

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- Payments made to builders for works undertaken for private sector residents for disabled facilities grants, warm homes funding, etc. are not subject to procurement regulations

January 23 Analysis

The detailed report taken from Oracle FUSION is included as exempt 'Appendix 1 - Spend Compliance Jan 23'. This report shows the compliance figures overall, by service and by sub-service area.

A summary of the analysis undertaken by service area is included within the data following table. A target of 95% compliance overall and by service area in respect of transactions processed via Oracle has been set previously by the Committee.

Performance can be summarised as follows:

- Total spend via all systems for January 2023 equated to £28.2M (£29,165,679.58) which is slightly lower than the approx. £29.2M reported for October 2022 at the last meeting.
- Total spend for transactions with a value of £5k or more which should generally be linked to a contract entry published in accordance with transparency requirements and finance controls for January 2023 equates to approx. £21.6M / 76.7% which is an improvement on the figures for October 2022 which were £21.8M / 75%.
- Total spend for transactions with a value of £5k or more processed fully via Oracle FUSION (raising of purchase order and payment of invoice) equates to approx. £18.5M / 66% of all £5k or more transactions.
- Of this spend £18.4M / 99.3% can be compliantly tracked to a contract entry published on the InTend system without any corrective actions undertaken by Procurement which is higher than 98.7% figure reported for October 2022 and is now the highest compliance % figure recorded to date. All service areas also exceeded the 95% compliance target other than Culture who still recorded a compliance % of 94.9%.

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Spend Compliance Comparison - October 22 vs January 23

1. Spend Processed Entirely Via Oracle FUSION

Key

- NC - Non-compliant
- C - Compliant

Directorate	October 2022			January 2023		
	Total £	NC £	C %	Total £	NC £	C %
Adult Services	£719,681.89	£2,279.33	99.7%	£766,513.18	£9,352.57	98.8%
Children Families & Education	£341,407.53	£12,704.88	96.3%	£800,957.76	£1,995.75	99.8%
Corporate Services	£577,406.00	£11,304.35	98%	£212,542.15	£787.58	99.6%
Culture Leisure & Regulatory Services	£115,348.21	£2,862.33	97.5%	£235,494.13	£11,984.18	94.9%
Executive	£59,660.36	£70.00	99.9%	£89,121.62	£0.00	100%
Finance	£1,504,917.66	£9,113.75	99.4%	£1,994,835.07	£2,165.15	99.9%
Housing Neighbourhood & Building Services	£7,282,771.58	£88,748.00	98.8%	£7,732,014.81	£1,424.46	98.98%
*Portsmouth International Port - SCALA	£535,800.44	£0.00	100%	NA - See Other Systems below		
Public Health	£361,186.12	£618.00	99.8%	£477,761.65	£309.00	99.9%
Regeneration	£4,242,082.75	£80,043.14	98.1%	£6,229,665.03	£6,408.71	99.9%
TOTAL	£15,740,262.54	£207,743.78	98.7%	£18,538,905.40	£136,294.52	99.3%

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2. Spend Processed Entirely or Partly through Other Systems

January 2023			
Systems / Payments	Total £	NC £	C %
Academy Payments - Education Funding Transfers	£860,605.68	£860,605.68	0%
Early Years Payments - Children & Families Funding Transfers	£2,560,692.61	£2,560,692.61	0%
Energy Services - Warm Homes Grant Transfers	£1,228,313.09	£0.00	100%
MOSAIC - Children's Social Care Finance System	£490,664.87	£490,664.87	0%
CONTROCC - Adult's Social Care Finance System	£2,421,972.41	£1,475,278.93	39.1%
Pre-Paid Cards	£7,506.08	£7,506.08	0%
Private Sector Housing - Disabled Facilities Grant Transfers	£164,507.12	£0.00	100%
SCALA - Port Finance System	£1,180,439.66	£1,047,711.86	11.2%
SystemsLink - Utilities Payments	£620,964.25	£0.00	100%
VAT Only Invoice Payments - Finance	£101,867.12	£0.00	100%
TOTAL	£9,637,532.89	£6,442,460.03	33.2%

The data set from which the above tables has been calculated can be found within exempt Appendix 1 (EXEMPT - G&A&S - Procurement MI - App 1 Spend Compliance Jan 23).

Analysis of non-compliant financial transactions exceeding £5k which cannot be traced back to a compliant contract currently by Procurement are included for within Appendix 4 (EXEMPT - G&A&S - App 4 - Procurement Data Analysis - Nov 22 - Jan 23).

In summary, the analysis shows that in respect of spend processed entirely via Oracle FUSION, there are no financial transactions with an overall distribution value in excess of £100k (above which contracts are classed as high value under the council's CPRs and should be let via a fully advertised compliantly tender process) that cannot be traced back to a compliant contract, or are otherwise exempt from regulations and council CPRs.



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Whilst work is required to ensure that contract entries are raised and published on InTend, the risk of legal challenge to the Council for failing to meet transparency requirements is low.

In respect of spend processed via other systems and processes robust analysis protocols need to be developed. However, through focusing on higher value over £100k transactions, there does not appear to be many transactions above this value which cannot be linked to a compliantly procured contract or would likely fall outside of the Council's Contract Procedure Rules and wider procurement regulations - e.g. funding transfers, grant payments, VAT reconciliation.

Work will be progressed by Procurement, with support from Finance and Legal as needed, to further analyse spend being transacted using other systems and processes. This will include for consideration of whether the transactions are covered by procurement regulations and transparency requirements.

Where transactions are within scope Procurement will work with the relevant sections to ensure that contract entries are transparently published and develop control protocols. This work has already commenced with the Port SCALA system and Adult Social Care CONTROCC system where transactions can be manually traced back to contract entries through use of an agreed referencing protocol.

SECTION 2 - CONTRACT AWARD VIA WAIVER

The tables below show a comparison of contracts with a lifetime value of £100,000 or more awarded via application of a waiver between August - October 2022, as reported at the last Committee meeting, with those awarded via waiver over the last reportable quarter, being November 2022 - January 2023.

Whilst waivers are to be sought for any significant departure from the council's Contract Procedure Rules (CPRs), the report focuses upon waivers that apply to contracts with a lifetime value of over £100k as it is at this threshold that review by Procurement and Legal is mandated under the Council's CPRs. Below this threshold waivers can be approved by the relevant Director or Assistant Director.

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
- Procurement Gateway Board - above £1M

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Above £100k Contracts Awarded via Application of Waiver - Reporting Period Comparison

Risk Profile	August 22 - October 22		November 22 - January 23	
	No. of Contracts	Waiver Value	No. of Contracts	Contract Value
HIGH RISK	0	£0	0	£0
MEDIUM RISK	4	£2,933,248	3	£3,568,817
LOW RISK	4	£284,408	6	£5,358,558
TOTAL	8	£3,217,656	9	£8,927,375

Summary information regarding the waivers including for service area, contract name, supplier, value, term, etc. can be found within the exempt 'Appendix 2, Waivers Nov 22 - Jan 23'.

Analysis

Risk ratings have been applied to the waivers reviewed in accordance with the following criteria / characteristics:

- HIGH RISK - In breach of statutory procurement regulations, high probability of market challenge, lack of effective mitigation strategies, no agreed strategy in place to bring the contract into compliance
- MEDIUM RISK - In breach of statutory procurement regulations, low probability of market challenge, mitigation strategies in place, agreed strategy in place to bring the contract into compliance, rationale for waiver meets Council CPR requirements
- LOW RISK - No breach of statutory procurement regulations, low probability of market challenge, mitigation strategies in place, rationale for waiver meets Council CPR requirements

The number of waivers has stayed broadly the same as the number reported at the previous Committee (9 vs 8) and represents a consistent reduction compared to 21 previously reported for period covering April - June 2022.

Whilst the reasoning for the decrease has not been investigated in detail, it can be assumed that the reduction may be due to the lessening impacts of the COVID-19 pandemic upon re-tendering programmes. However, whilst work is progressing, there is still significant work required to address the backlog of contracts that require re-tendering.



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The value of waivers has increased compared to the last reporting waivers (£8.9M vs £3.2M) which has been driven by above £1M waivers being processed within the last reportable quarter. However, the risk profile associated with the waiver sign offs has not increased as a result with broadly similar reporting period values falling into the medium risk category (£3.5M vs £2.9M) and no instances of any High risk waiver sign offs within the last reportable quarter.

All waivers have been subject to a level of financial benchmarking and delivery performance assessment in order to provide best value assurance in the absence of full competitive processes. For all on-going medium to long term requirements, Procurement have engaged with services to plan and implement procurement processes which will bring the contracts back into compliance.

Information regarding each above £100k waiver reported on above including for summary risk analysis undertaken by Procurement can be found within exempt Appendix 4 (EXEMPT - G&A&S - App 4 - Procurement Data Analysis - Nov 22 - Jan 23).

SECTION 3 - CONTRACT MANAGEMENT PERFORMANCE MONITORING

Current KPI Model & Planned Developments

Contract management performance is currently monitored at summary level by application of a set of 3 standard KPIs which are scored and reported on via the InTend system. The 3 KPIs currently used are:

- KPI 1 - Contract Service Level
- KPI 2 - Business Process Level
- KPI 3 - Customer Perception

Procurement are in the process of phasing out this system as the current model causes the following problems:

- Not all contracts relate to front line activities, making the customer perception KPI 3 superfluous in some cases
- Each of the KPIs are weighted equally, which can overemphasise relatively minor business process issues in relation to KPI 2 (e.g. late receipt of an invoice) on contracts that are otherwise performing well and scoring highly in respect of KPI 1 Contract Service Level
- Having to consider 3 KPIs which may not always be relevant and rarely equal importance frustrates contract managers which can lead to inaccurate or non-completion of KPIs where services do not see benefits

Procurement have developed a simplified flexible single KPI model whereby contracts are assessed on a consistent 0-5 basis as per the example below:



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- 0 - Unacceptable Performance - grounds for immediate termination and barring from future contract opportunities
- 1 - Poor - significant issues have arisen. May invoke termination and barring from future opportunities unless significant and immediate improvements are implemented.
- 2 - Fair - activities were generally undertaken to a satisfactory level however a number of smaller issues arose that were addressed when improvement notices were issued
- 3 - Satisfactory - met the contractual obligation and performed within the range of expectation
- 4 - Good - met and on occasion exceeded contractual expectations. Activities undertaken to a high standard.
- 5 - Excellent - performed above general contracted requirement by bringing added value and exceeded expectations in multiple areas.

This revised model has been welcomed by services and has been successfully implemented onto a number of procurement processes undertaken over the last year.

The model by virtue of its core simplicity is flexible and can be applied on a proportionate and relevant basis to any contract irrespective of the value, scale and complexity of the contract.

Procurement have worked with the provider of its e-sourcing solution InTend to successfully develop and test the KPI model within the system. The new model has now been launched within the system and is due to be implemented across the following contracts from April 2023:

- Within the Council's top 20 higher value strategic contracts which collectively equate to over £100M spend per annum
- Contracts procured via the Council's Primary Contractor Framework used to procure routine building works where the 0-5 model has been applied which collectively equate to over £20M.

From April 2023 the current KPI model will be deactivated and the new 0-5 model will be applied to all contracts with a lifetime value of over £100k from October 2023.

The new model will be implemented along with consistent reporting instance business rules which will be actively monitored by procurement and reported to Directors. This will be coupled with provision of training and support from Procurement. Over the next 6 months consistent application and completion of KPIs is targeted to have improved significantly.

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KPI Performance Analysis for Nov 22 - Jan 23

Performance is assessed against the following parameters:

- Total number of contracts on InTend system
- Total number of contracts on system with KPI requirement
- Total number of contracts due KPI performance update in last quarter
- Total number of contracts due KPI update in last quarter that KPIs have been reported
- Performance level of contracts KPI scored within the last quarter

Analysis Parameters	Oct - Aug 22		Nov 22 - Jan 23	
Total No. Contracts	1599		1624	
Total No. Contracts with KPI Requirement	966	60%	940	58%
Total No. Contracts with KPI Due Assessment in Last Quarter	341	35%	324	34%
Total No. Contracts with KPI Assessed in Last Quarter	89	26%	75	23%
Total No. Contracts Assessed as Red / Poor performance in Last Quarter	1	1%	0	0%
Total No. Contracts Assessed as Amber / Below Satisfactory performance in Last Quarter	1	1%	1	1%
Total No. Contracts Assessed as Green / Satisfactory performance in Last Quarter	42	47%	36	48%
Total No. Contracts Assessed as Gold / Above Satisfactory performance in Last Quarter	45	51%	38	51%

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Contracts with KPI Requirements

Whilst the majority (940 / 58%) of contracts recorded on the InTend system have KPI reporting requirements applied to them a very significant number do not and it is not immediately clear how the decision to apply the KPI or not is being applied on a consistent basis.

Moving forwards the new 0-5 KPI model will be launched alongside consistent business rules for when KPIs are applied to contract entries and the required frequency of reporting, which as far as possible will run on a quarterly basis in line with G&A&S reporting frequency. Any departure from the business rules will need to be raised with Procurement.

Levels of Performance

No contracts for the quarter covering November 22 to January 23 and only 1 contract has been scored as amber (1%). Further information in respect of which contract has been scored amber along with the rationale for the score is provided within the exempt appendixes referred to below.

36 contracts have been scored as satisfactory (48%) and 48 (51%) have been scored as above satisfactory.

Further Detailed Information

Details on the contracts due KPI assessment within the last quarter along with rationale for allocation of less than satisfactory scores can be found within the exempt information which accompanies this report - 'EXEMPT - G&A - Procurement MI - App 3 Contract KPIs Nov 22 - Jan 23' and 'EXEMPT - G&A&S - App 4 - Procurement Data Analysis - Nov 22 - Jan 23'.

.....
Signed by Richard Lock - Assistant Director, Procurement

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