



**Draft**  
**Statement**  
**Of**  
**Accounts**  
**2017/18**

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**(Section 151 Officer)**

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**Date**

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**Councillor Will Purvis**  
**Chair of the Governance and**  
**Audit and Standards Committee**

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**Date**

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## Narrative Statement

Financial Year Ended 31st March 2018

### Introduction

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

### Overview

#### Our context - the city

Portsmouth is the UK's **only** island city, with Portsea Island accounting for **62%** of the city's land mass. Portsmouth is **the most densely populated area in the UK outside London**, with an estimated population of **215,000** residing within **15.5 square miles**.

Portsmouth is ranked **63rd most deprived out of 326** local authorities in England (where 1 is the most deprived), with **15% of the city's population experiencing income deprivation**. Charles Dickens ward tends to be the most deprived ward in the city. 22% of all dependent children in the city are living in poverty (which is above the England average) and in some areas this rate is twice the national average (Charles Dickens). The percentage of children in the city known to be eligible for and claiming free school meals is higher than the national average, reflecting low incomes in the city.

The city is becoming more ethnically diverse. 16% of the City's overall population are not of White British ethnic origin, and this rises to 20% of school-age children. Over 100 languages are spoken by pupils attending Portsmouth schools.

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

Portsmouth performs a key role as an employment hub for its suburban hinterland, most notably the boroughs of Fareham, Gosport and Havant which supply **24% of the city's workforce**. Unemployment in the city is typically on a par with the average for Great Britain, but around **1% higher than the South East region's average**. An estimated **4.9%** of the city's 16 - 18 year olds are NEET (not in education, employment or training). This is lower than both the England average and the south east regional average, and is reducing. Adults in Portsmouth have lower than average levels of skills and qualifications, with approximately **27% of the working age population having no or low qualifications (NVQ1 equivalent)**. We know that local resident earnings are significantly lower than local workplace salaries, suggesting that many of the higher level jobs are filled by people commuting 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. The opening of the Hindhead Tunnel has **significantly improved road access to London**, shortening journey times by 20mins. Consultation with residents suggests that affordability of public transport – especially bus fares – is a major issue. We also have limited road capacity due to the "island" nature of the city, and only three road routes off Portsea Island, although congestion measures compare well with other cities. We were the first **20mph** city in the country.

### **Our context - the City Council and how it works**

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

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

The Cabinet currently consists of the **Leader of the Council** and **nine other Cabinet portfolios**. 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. In 2017/18 these were:

- Culture, Leisure and Sport
- Education
- Children and Families
- Environment and Community Safety
- Adult Social Care & Public Health
- Housing
- Planning, Regeneration and Economic Development
- Resources
- Traffic & Transportation

Roles, responsibilities and the way that we do City Council business are set out in the **Constitution** of the City Council.

The staff of the City Council are managed by the **Chief Executive**, who is the Head of the Paid Service. The Chief Executive is supported by a **Deputy Chief Executive**, who is also the monitoring officer, and **directors** who have oversight of a number of services, each of which deals with a broad range of the functions of the authority. **These director posts are:**

- Director of Children, Families and Education (and statutory Director of Children's Services)
- Director of Adult Social Care - (statutory post - also Chief Operating Officer of the Clinical Commissioning Group)
- Director of Financial and Information Services (and statutory s151 officer)
- Director of Public Health (statutory post - also Director of Public Health at Southampton City Council)
- Director of Culture and City Development
- Director of Regeneration
- Director of Property and Housing
- Director of Community and Communication
- Director of HR, Legal and Performance
- Portsmouth International Port Director

### **Our context - our partners**

The City Council has excellent partnership working, with other local authorities, particularly Gosport Borough Council, with whom we are sharing a senior management team, and with colleagues in health, including the Clinical Commissioning Group (CCG), the police, probation, fire and rescue service, university, the voluntary and community sector and with businesses.

We have three key theme-based strategic partnerships - the **Health and Wellbeing Board**, **Children's Trust**, and the **Safer Portsmouth Partnership**.

These three partnerships work together on an aligned strategic approach to many of the major issues facing people in Portsmouth. In addition, the **Public Service Board (PSB)**, chaired by the Leader of the Council, provides a mechanism for the leaders of public sector agencies in the city to work together outside of the formal partnership governance arrangements. We are looking to streamline the partnership arrangements of the city in 2018 to ensure that these are operating as effectively as possible.

The City Council is the accountable body for the Solent **Local Economic Partnership (LEP)**. There are other partnership arrangements around the city's regeneration efforts such as, Solent Transport, the Partnership for Urban South Hampshire (PUSH) and the business leaders group, Shaping the Future of Portsmouth.

In line with many councils nationally, Portsmouth is in discussion with other local authorities in the area about a devolution deal with government. We want to ensure that we can better serve our residents by getting more local control over services and responsibilities.

The unitary authorities of Portsmouth City Council, Southampton City Council and Isle of Wight Council have submitted a proposal to the Secretary of State for a Solent Mayoral Combined Authority. This proposal is still awaiting determination by the Secretary of State. In the meantime, local authorities in the area are exploring options for working together and the three unitary authorities are working together to pilot a business rates retention scheme.

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

### **Our context - finances**

The largest share of the money which the City Council receives comes from government grants and reductions will continue to be made to this. Over the past seven years (since 2011/12), overall central government funding to the City Council has reduced by over £73m (amounting to a funding reduction of 48%). Taken together with other financial pressures (mainly relating to inflation, the effects of an ageing population on care services and the increased requirements for the safeguarding of vulnerable children), total savings over the period of £94m have been made by the council, representing around 44% of the City Council's controllable expenditure.

The Government published the provisional local government finance settlement for 2018/19 in December 2017. In overall terms, the settlement includes a further reduction in spending over the period to 2019/20 of £13.3m, which is broadly in line with our forecasts.

Essential care services consume 53% of the City Council's net controllable budget. Therefore the City Council is faced with a position where it not only has to meet these costs, or at the very least manage the demand for these services, but simultaneously find £12m of savings across all areas. It is also of significance that a further 22% of the City Council's controllable spend occurs in the Traffic & Transportation and Environment & Community Safety Portfolios where a large proportion of their activities are tied into long term contracts where the savings potential is more limited.

The City Council's Medium Term Financial Strategy (MTFS) has been developed to respond to these very challenging circumstances. The Strategy has a strong regeneration focus with a presumption that capital investment will be targeted towards economic growth. This is to improve the prosperity of the City through employment as an objective in itself and also because this will reduce the demand for Council services generally. Furthermore, regeneration creates the opportunity for additional business rates to be generated and retained by the City Council. The Capital Programme can also be a vehicle for Invest to Save schemes enabling the City Council to reduce its own costs in the future.

Equally prominent in the strategy is the strong focus on entrepreneurial activities leading to income generation as a means to make savings and avoid cuts to services.

The Strategy is underpinned by a financial framework that provides financial autonomy to Portfolios and Committees. Any underspending arising against their budgets is retained by them. This was deliberately designed to create the financial conditions that support responsible spending and promote forward financial planning. The implication of this is that the opportunity for future underspending to accrue and be available corporately is much reduced. It is vitally important therefore that the use of any corporate underspend is used wisely and in accordance with the City Council's Medium Term Financial Strategy aimed at meeting the future financial challenges of the City Council.

The Medium Term Resource Strategy (MTRS) Reserve is a fundamental component of the City Council's financial framework and is designed to provide funding for future redundancies, Spend to Save and Invest to Save initiatives. The current uncommitted balance on the MTRS Reserve amounts to £2.5m and is considered to be very modest in the context of the £12m of savings that the City Council is required to make over the next 3 years.



The City Council made a series of Budget decisions in December 2017 that were strongly aligned with the new Medium Term Financial Strategy. The approved proposals focussed on an "Avoidance to Cuts" approach in line with the Medium Term Financial Strategy. In overall terms, the proposed £4m of savings are characterised as follows:

- Efficiency Savings (little or no reduction in Services) £2.4m (60%)
- Additional Income £1.4m (36%)
- Service Reduction £0.2m (4%)

The approved proposals provide full protection from savings for Children's Social Care and significant protection from savings for Adult Social Care. As a necessary consequence, savings from other Portfolios are proportionally higher and significantly higher in some cases.

#### *Medium Term Financial Strategy*

The Council's stated Medium Term Financial Strategy seeks to balance achievement of the organisational aspirations whilst delivering the necessary savings.

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

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

## **What the City Council does and why**

**These are challenging times for local government. At a time of unprecedented pressure on public finances, we need to tackle huge need in the community, some key barriers to economic growth and continue to deliver the services that support a vibrant city.**

In Portsmouth, we are rising to the challenge. We have set clear priorities that, as an organisation, we will:

- Be entrepreneurial and efficient
- Provide excellent customer service
- Raise education standards
- Encourage regeneration and investment
- Empower residents to be healthy and independent

As well as delivering the essential services we are required by law to do, we are focusing on these areas and making sure that everything we do is in line with achieving these priorities.

### **Be entrepreneurial and efficient**

Given the financial context, and the significant levels of savings that we have had to find, we have to be more entrepreneurial and efficient in how we deliver our services.

To achieve this we are working to:

- Bring new money into the City Council
- Increase our own role as a developer and investor
- Work with other partners and other authorities to ensure our services are joined up
- Be creative, smart and efficient in how we work.

We bring in over £0.2m every year by selling advertising space. We have reduced internal printing and advertising by spend from around £1.6m in 2012 to £0.3m in 2015/16 through the marketing, advertising and print project.

Our strategy to increase the number of digital customer service channels, enabling customers to contact us when and how they want to, has created £1.7m of savings so far.

We are also reducing costs by sharing management services, most extensively with Gosport Borough Council.

### **Providing excellent customer service**

Our customers deserve excellent service. Even though they may not have a choice about using some of our services, we must do all we can to help them as best we can.

This means that we are working to:

- Recognise that whether they are residents, tenants, service users, clients, parents or carers, everyone we work with deserves excellent customer service
- Put our customers first
- Understand what are our customers' needs are, and aim to meet these when they need it, in the way that is best for them
- Ensure the information we give customers is clear, helpful and easy to understand
- Ensure our services and buildings are accessible to all our customers.

In order to deliver these aims, we are developing digital channels and we are also using a systems approach to improve the quality of service from the point of view of the customer. We are also using feedback from our new customer feedback scheme 'How did we do today' to inform our working, and helping our customers understand what to expect and to hold us to account if we don't deliver our customer promise.

### **Raising educational standards**

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

In Portsmouth, there are 50 primary schools, 10 secondary schools and four special schools in the city (including one multi-site provision). In addition there are two further education colleges, one maintained nursery school and a university technical college (UTC), which opened in 2017.

The UTC is a new school for young people aged 14-19 interested in pursuing a technical career. It offers a "hands on" education alongside a traditional academic education. UTCs are expected to help meet the national skills gap and students who follow the UTC education will benefit from teaching and mentoring from specialists who currently work in industry, specialist facilities, real-life employer projects and opportunities to progress to higher apprenticeships, higher education or jobs in growing sectors. UTC Portsmouth has specialisms in Electrical & Mechanical Engineering and in Advanced Manufacturing. These specialisms are key to helping our economy to grow.

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

We are working to:

- help families and children in their Early Years so they are ready for school
- meet the need for more school places
- help schools and colleges to recruit and retain high quality teachers
- support schools and colleges, including the new University Technical College, to give young people the skills and resilience they need.

There are some really strong achievements in this area. We have more schools in the city rated by Ofsted as Good or better, than ever before, including our first outstanding mainstream secondary school (St Edmunds). We supported the development of the new University Technical College in a successful launch, with all places allocated months before the school opened in September 2017. We are providing 30 hours of free childcare for over 400 families through a national pilot scheme, which will support children in their early years. We are driving a Teach Portsmouth campaign to recruit the best teachers to the city.

### **Encouraging regeneration and investment in the city**

A great city has a thriving and sustainable economy, which creates opportunities and generates wealth for its residents. In the longer term, this reduces the need for our services. In the short term, a greater share of the City Council's funding will come from business rates so a strong local economy is essential to delivering local services. That's why the council and partners are working to make the city an attractive place to live, work and visit. We are encouraging businesses to locate, invest and grow in Portsmouth. We are working hard to make sure our residents benefit from these opportunities, through better education and training.

The story in Portsmouth is positive, with lots of reasons to be very optimistic about regeneration of the City. Portsmouth Naval Base is the base port for the new aircraft carriers and the majority of the surface fleet. The reputation of Portsmouth as an international centre in the strategic defence arena, is also enhanced through the city being host to the Centre for Marine Intelligence Systems, a research centre based on Portsdown Hill.

To continue encouraging regeneration and investment in the City we are:

- Promoting the city as a world class destination holding world class events
- Encouraging growth in key employment sectors and supporting business start-ups
- Securing investment in the city's infrastructure
- Encouraging more sustainable development
- Enabling more choice in how to travel, and improving the transport network
- Improving air quality and protecting the city from flood risk.

There are significant achievements in this area of activity. Portsmouth is now the home to a number of high-profile events, including the Victorious Festival, which boost the economy and raise the profile of the city.

We are delivering improved coastal defences in the north of the island and work is underway to unlock investment in coastal flood and erosion risk management measures in Southsea.

A new transport interchange has been developed at the Hard, as part of a wider masterplan to improve this area - one of the major gateways to the city.

We have opened the first unit at our brand new 45-acre business park in Havant - Dunsbury Park. This is now home to the international clothing brand, Fat Face. We are confident that this high-quality strategic site will attract many other investors.

There are lots of other projects in development including:

## Tipner and Horsea Island

As part of the City Deal in 2014, the Tipner/Horsea development site is being unlocked for future development.

Areas of Tipner have long been largely derelict, but the land has massive potential to form a key gateway to Portsmouth. Regenerating the area will bring major benefits to the City, most notably, free up the road network; encourage sustainable transport; clean-up contaminated land; create new open spaces, parks and waterside walks; create much needed homes and jobs.

The Department for Transport awarded the City Council £19.5m funding, which with £8.5m of council money, has delivered a new junction on the M275, access to key sites and a park and ride with more than 650 spaces.

Eventually it is planned to develop the entire Tipner site, on both sides of the motorway with a bridge link to Horsea Island enabling Bus Rapid Transit. We are working with partners to develop a mixed development of housing and business space. As part of the City Deal, the City Council will receive land from the Ministry of Defence and has received a grant of £49m to develop out the site.

**City Centre Road** - The M275 is the major route providing access to the heart of the city. The M275 suffers significant congestion and the road network within the city centre creates a poor quality environment. It is not ideal for any road user, creates barriers which make it difficult to access several parts of the centre, and subdivides major parcels of land.

Major growth is planned for the city centre but without improvements to the road access, there will be insufficient capacity in the network to support growth with land that could be developed remaining fragmented.

A new road layout will offer an ideal opportunity to improve the area for all road users but particularly to increase public transport priority, create routes that bring pedestrians, cyclists and bus passengers into the heart of Commercial Road. It could also improve the connectivity of the city centre, allowing easy access to the whole city centre and opening up a number of sites for development.

Portsmouth is seeking a transformational change to the city centre to enable it to perform a pivotal role in delivering the growth and increased productivity that the city needs to achieve. The proposed scheme will use the investment in the infrastructure as a catalyst for securing jobs, homes and a sustainable future for the city.

The main objectives of the city centre proposals are to:

- Minimise traffic congestion into the city centre and improve the reliability of journey times
- Prioritise cyclists and pedestrians at junctions and crossing points
- Simplify the road network to make it easier for residents, business and visitors to enter the city
- Open up significant areas of land for potential new development and public space
- Improve the quality of the environment and create a sense of place.

A public consultation on the scheme took place in Autumn 2017. Feedback received resulted in several changes to the proposed scheme, including improved and purpose built cycle routes through the city centre; a new cycle route on the eastern side of the proposed dual carriageway; improved access to Victory Retail Park and improved access to car parks in Church Street. Work is now underway to secure funding and consent for the scheme.

## **Empowering our residents to be healthy and independent**

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

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

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

- Help people achieve a safe, resilient and healthier lifestyle
- Provide good quality housing options
- Working closely with the NHS and other partners to offer joined-up services
- Facilitate environments and opportunities that support wellbeing
- Help communities to help themselves
- Ensure our most vulnerable children and adults are supported and protected.

Examples of what we are doing include building more than 200 new homes, part of the most ambitious council home building programme in Portsmouth since the Second World War. We are providing wellbeing services which in their first year have supported 856 people to quit smoking, and 426 people to reduce alcohol consumption. We have increased volunteering in the City, including launching a Be There for Care campaign to support Portsmouth City Council care homes. We have used additional resources to create a Transformation Fund to help Adult Social Care services develop more sustainable working, and established a single early help and early intervention service for children and families.

The aims set out above are extensive and challenging, particularly because need and demand continue to rise as resources decline. We need to ensure we minimise the negative impacts of these challenges to ensure that we protect the most vulnerable in society, whilst at the same time capitalising on opportunities to deliver economic expansion and job creation, through the delivery of new homes, skills and businesses. This means changing the things we do and the way we do things.

Portsmouth is an extraordinary city that is on a journey to becoming a truly great waterfront city. But if that ambition is to be delivered, then the local authority needs to continue working effectively, innovating, simplifying and sharing so that we can confront the challenges of strained public finances, ensure that no one is left behind, and ensure that the City continues to thrive.

## **Performance**

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

Key issues relating to our performance in 2017/18 are:

## **Adult Social Care**

Adult Social Care is an increasingly high profile area of local authority business. There is an acknowledgement from national the Government that social care is under increasing pressure, for a variety of reasons, including increasing demand and cost pressures. Furthermore the quality of the social care system is critical to ensuring the health services remain viable in the medium to long term.

The then Department for Communities and Local Government produced a pre-budget report in March 2017 highlighting some of the national drivers of demand and cost, in particular:

- Demographic changes - the King's Fund report that the number of people in their 80s and 90s has increased by almost a third in the last 10 years, and is set to double in the next 20 years. It is highlighted that many people in this age bracket will have at least two health conditions, and many will have dementia. This requires a mixture of healthcare and social care. As well as helping people to live for longer, improved medical science and living conditions also mean that younger people live longer with disabilities or complex health conditions, requiring complex health and social care responses.
- The Care Act 2014 reformed and modernised social care law, and whilst the sector was broadly enthusiastic about the changes introduced, there were concerns about potential increases in demand for services, leading to higher costs. The King's Fund highlighted that the legislation had "substantially added to both the expectations and statutory duties of local authorities without necessarily being reflected in the money they get."
- National Living Wage (NLW) - In July 2015, the Government announced the National Living Wage for those aged 25 and over. While the NLW gave care workers, amongst whom recruitment and retention is a significant issue, a needed increase in pay, it did add to the funding pressures on councils.
- Deprivation of Liberty safeguards - A Supreme Court judgement in March 2014 changed the definition of "deprivation of liberty" under the Mental Capacity Act 2005, resulting in more people who have been deprived of their liberty for treatment, care or protection from harm coming forward for council safeguarding assessments. Some funding was made available in 2015-16 to meet increased costs, but not to the level required (a national pot of £25m against a requirement estimated at £127m).

A number of measures have been introduced in the recent past to try and address some of these challenges, including:

- Better Care Fund - the Spending Round 2013 announced the creation of a Better Care Fund (BCF): local health bodies and councils would pool existing funding into the BCF and agree joint plans for closer working between health and social care. In 2015, the Government announced that additional funding for social care would be made available in an "improved BCF" although this was "backloaded", commencing at very modest levels in 2017/18 and rising in 2018/19 and 2019/20.
- The social care precept - the social care precept allows councils to raise council tax by up to 6% over the 3 year period 2017/18 to 2019/20 with a maximum increase of 3% in any single year to fund social care. This for example could be 2% each year, or 3% in 2017-18 and 2018-19 only, or any other combination not exceeding 6% in aggregate.
- The adult social care support grant - A "one-off" £240m national funding allocation funding for adult social care support grant for 2017-18, distributed according to relative need, as a short term measure. Intended to compensate, in part, for the "backloading" of the "improved Better Care Fund".

The commissioning and provision of adult social care and support is a vital council service that can transform people's lives. It is a crucial public service that supports working age disabled adults, older people and their carers, as well as promotes their wellbeing and independence. Despite major funding pressures, councils have worked hard to preserve adult social care outcomes, as reported nationally:

- In 2016-17, 86.4 per cent of service users in England reported that the services they received helped make them feel safe and secure. This compares to the 84.5 per cent reported in 2014-15.
- The proportion of people who use services who say they have control over their daily lives has remained stable (77.7 per cent in 2016/17 compared to 76.6 per cent in 2015/16).
- Overall satisfaction of people who use services has remained stable (64.7 per cent in 2016/17 compared to 64.4 per cent in 2015/16).

The cumulative effect of these high-level changes on Portsmouth means that the amount of savings to be found over the 3 years to 2019/20 is estimated to be £4.6m, relating to budget savings required to contribute to the Council's overall Corporate Savings requirements (£3.8m) and the demographic cost pressures (£0.8m).

However, there are also opportunities, as the following additional funding is expected to be available:

- Grant for Adult Social Care as announced in the Spring budget 2017 of £7m over 3 years will be available, on a reducing basis to 2019/20.
- In 2018-19 the Social Care precept will generate a further £1.1m and an additional £1.1m is estimated for 2019/20; and both will be on-going.

It has been assumed that the identified demographic pressures of £0.8m and other, as yet unidentified but likely cost pressures can be funded from the Adult Social Care precept. The service is investing in the transformational change of adult social care services, in order to deliver the ongoing £3.8m remaining savings requirement (i.e. after funding all likely demographic and other cost pressures). As at 31 March 2018, £4.52m had been committed to transformational initiatives.

The service is now embarked on a number of projects to substantially change the way that responses for vulnerable adults are delivered.

For our domiciliary, residential and nursing care responsibilities, capacity continues to be tight, although there are sufficient residential home beds available in Portsmouth. However, three residential homes in Portsmouth closed over the winter and the need to deliver new placements placed additional strain on the financial position. A process has been underway to transfer the running of the Harry Sotnick House provision from Care UK to Hampshire County Council.

In domiciliary care, the market has been challenging, although an ongoing backlog has been reduced due in part to City Council housing delivering their own domiciliary care in a sheltered block, releasing significant capacity. In quarter 3, a suspension was placed on new business with a local provider in response to an adverse Care Quality Commission (CQC) report, and reviews of 50% of service users placed led to a cautious purchasing approach as a result. Transformation Fund agreement has been given to develop a new model for domiciliary care, for implementation by the end of 2018. The cumulative effect of review work and placing people due to home closures has impacted on the ability of the service to deliver assessments, and a waiting list has built up.



The City Council's own residential units have presented significant challenges in 2017/18, with a number of critical CQC reports. There are challenges with recruitment and retention of residential care staff, and a campaign has been devised to deal with this, and improve the quality of care in homes and reduce agency dependency. A corporate programme has also been developed for energising people around the idea of support for the care homes under the banner 'Be there for Care' and includes a volunteering project, a corporate social responsibility project, intergenerational projects and income generation to sustain change. We have considered environments and activities, a vintage tea room and sweet shop have been opened in Edinburgh House and Hilsea Lodge, and a "Magic Table" has been sourced for two of the homes, to promote stimulation and interaction for people with dementia.

Alongside these initiatives, a turnaround team for City Council homes has been established which has the two main aims of ensuring the Harry Sotnick House transfer is well managed, and reviewing the current City Council residential homes and plan and support the implementation of the changes that ensure Care Quality Commission compliance and sustainable quality change.

In the field of Learning Disabilities, we are refocusing our model of services across the four Preparing for Adulthood outcomes:

- Work
- Health
- Independence/Learning
- Relationships and Community

A day service review has been completed for people who would be described as 'at risk' under Transforming Care and there has been significant growth in social enterprises and work related activity. A 5 year day service strategy and action plan has been developed, with an emphasis on sustainable growth, diversity and a move to non-service, low cost, socially inclusive solutions. The work so far has generated improvements in confidence, independence and customer and carer satisfaction, and the increased spending over several years has ceased.

Whilst there has been significant progress, we still need to establish fair and sustainable funding arrangements. We need to develop the market further and continue to work with an outcome focus.

The multi-agency safeguarding hub (MASH) continues to work well, although we are seeking dedicated health input. The MASH has enabled timely discussions with the police to determine any criminal investigation element to concerns raised and to establish whether there is a need for a joint enquiry under section 42 of the Care Act. However, there is a challenge in that the volume of inappropriate referrals into the MASH needs to be reduced.

### **Children's Social Care**

The level of demand for children's social care continues to rise with the number of looked after children at an all-time high, driven largely but not entirely by unaccompanied asylum seekers and more children becoming the subject of child protection plans. The increased demand means that the investment in 8 additional posts authorised in summer 2017 has only maintained rather than reduced case-loads, as originally intended. We are expecting Ofsted inspection of children's services imminently and are very determined to demonstrate the high quality practice taking place in Portsmouth.

We are getting better at identifying earlier the families who need social care support, with a decrease in the number of families open to social care without previously having received targeted early help support. The targeted early help service has only been operating fully since summer 2017 and needs more time and continued investment to embed before we can expect to see an impact on social care demand. Good progress has been made on the redesign of the Health Visiting service to create a targeted Health Visiting response for children aged pre-birth to 5 delivered at home and in the Family Hubs. The new service is being rolled out in the South locality and will be monitored closely.

Funding from the Public Health Transformation Fund and from the South East Migration Partnership has enabled us to strengthen expert support, and skills development, for social workers in "Trauma Informed" practice, essentially working more effectively with children and young people who have had traumatic, adverse experiences either over a sustained or short period. This should help us keep children in stable placements that promote the best outcomes for them.

While the right systems for collecting data for the Troubled Families payment by results scheme are now in place, we remain behind most areas of the country in being able to make claims and this creates a financial risk that we are monitoring closely.

Continuing demand pressure on children's social care is a financial and potentially service risk if caseloads rise, which we are monitoring carefully. Continuing reductions in the Public Health grant will require difficult choices with potential risk to demand management through early intervention.

## **Education**

There continue to be significant variations in performance between schools, in relation to inclusion as well as attainment indicators; we continue to focus attention on the schools with low performance. The national Strategic School Improvement Fund (SSIF) funded programme to reduce attainment gaps in Portsmouth between disadvantaged and non-disadvantaged students, secured through the Portsmouth Education Partnership, began in September 2017. In Q3 further SSIF funding was also secured for an additional programme to improve the attainment of children and young people on "SEN support" in mainstream schools.

The Government's policy statement "Promoting Social Mobility through Education" published in December 2017 promised that resources would be targeted on areas needing the greatest improvement and we are seeing the benefits in Portsmouth. There is a significant local challenge in attracting sufficient high quality applicants for teaching and school leader posts. The Portsmouth Education Partnership has a priority workstream with a number of actions to mitigate the risk but Portsmouth shares the national demographic challenge of a decreasing pool of newly qualified teachers.

A comprehensive secondary school sufficiency strategy was developed and formed the basis for bids for capital expenditure to support 3 expansion schemes (approved by full council in February 2018). A bid was also submitted (also approved) for expansion of the Willows special nursery school to accommodate additional children, against the background of rising demand for specialist places for young children with complex needs. This is critically important as the number of Education, Health and Care Plans continue to rise, creating an additional and continued pressure on the high needs block of the Dedicated Schools Grant.

Our overall strategy is to enable more children to attend school locally rather than in "out of city" places. This puts further cost pressure on the City Council and is not always the best solution for children. Implementing the strategy depends on being able to remodel buildings at Redwood Park Academy. This will require a £1m contribution from the Schools Forum to supplement £2m allocated by the Council.

We are also working to develop a special free school. Following detailed work, the former Wymering Community Centre is now the favoured site for the free school and feasibility work based on this site has begun.

### **Public Health**

The service is focusing strongly on the need to reduce smoking and tobacco use in the city, as a major driver of poorer population health outcomes in the City. The service is taking a wide-ranging approach to this work, including:

- Working with trading standards colleagues to limit the trade of illicit tobacco
- Supporting the inclusion of stop smoking support in the 0-19 healthy child programme
- Delivering smoking cessation through locally commissioned services and the wellbeing service
- Working with maternity services and within secondary care, promoting screening, brief advice and referral

Another focus of work, as key determinant of health outcomes in the city, is the rate of physical activity, with a focus on developing walking and cycling in particular. The service also takes a lead in the reduction of unwanted pregnancy, through its role in commissioning sexual health services and improving population vaccination coverage. The service also works to reduce the impact of the "toxic trio" of substance misuse, domestic abuse and mental health, through its work with the wellbeing service and commissioning support services.

### **Culture and City Development**

The directorate oversees a wide range of services that are incredibly important to the experience of living in the city.

The Library service is changing to respond to the increased demand for services on-line, but also to support people in their lives (for example, through launching the Wellbeing Hub). The annual Summer Reading challenge was a great success. The city museum service achieved the transformation of the D-Day museum, and the delivery of a new Butterfly House at Cumberland House. There was an overall reduction in visitor numbers because of the D-Day museum closure. An increase in visitors has been achieved elsewhere as the offer is continually improved.

The directorate continues to ensure safe, accessible and life-enhancing parks and open spaces for the city. In 2017/18 the directorate undertook a programme of activity that included:

- Opening a nursery and growing operation on the Seafront,
- Starting to replant the Rock Gardens,
- Working with Fratton Big Local to deliver improvements to Kingston Recreation Ground,
- Landscaping the new D-Day museum, including a new water feature.

Urban meadows are under development and in the 2018 growing season, 90 new and replacement trees will be planted.

The Directorate retains responsibility for maintaining the flagship Seafront area. Opportunities to enhance and develop the area are being identified. An example is the plans to bring Lumps Fort back into use.

As well as open spaces, the directorate oversees the sports and leisure facilities offer in the City, and following the change of operator for facilities to BH Live, a number of changes to sites have started to take place to improve the City's offer. A process to procure a new provider for the Watersports Centre also took place and resulted in the Andrew Simpson Foundation being appointed as the operator, to build on the strategy for watersport in the city.

Regulatory services have experienced a challenging year, with high demand for Environmental Health and Trading Standards services. Our coroners and registrars continue to deliver an excellent and efficient service, achieving all target times for activity.

The City Council entered into a partnership with Southampton City Council for the delivery of emergency planning services and working together to develop a fully shared service. The team have been active on a whole range of issues in 2017/18, including:

- Adverse weather events,
- Oil pollution,
- Supporting newly arrived unaccompanied asylum seeking children,
- An elevation of the national terror threat level,
- Contingency arrangements to support the local response in the wake of the Grenfell Tower fire and
- The first exit of the new QE2 aircraft carrier from Portsmouth Harbour.

### **Housing and Property Services**

The occupancy rate of local authority housing remains at just under 99% while our rent arrears is less than 2% of the Gross Annual Debt (GAD) owed and continues to reduce. The number of repairs completed first time shows a slight improvement from 83.7% in Q2 to 83.8% in Q3. Given the wide range and complex nature of the repairs that are undertaken on these properties this is considered to be a realistic target.

We have improved monitoring over the year of a range of compliance issues, including Legionella risk assessments, Gas and Electrical Safety Certificate checks. Despite the very high percentage of compliance, we continue to aim for full coverage.

The roll out of Universal Credit is a major project for those working in the Housing Management service and is due to commence in September 2018 in Portsmouth and November 2018 in Havant. Plans for staff training and raising tenant awareness are underway.

The Housing Options Service is undertaking significant preparations to ensure smooth implementation of the Homelessness Reduction Act.

In relation to Environment & Community Safety, officers from a number of services are coordinating their efforts to focus on street homeless issues. This includes the introduction of new High Street Wardens and a review of Supported Housing. A strategic programme manager has been appointed to coordinate efforts and create a strategy.

The performance of the waste management service continues to be good and ongoing problems of high levels of rubbish and low recycling rates continue to be addressed through trials to provide wheelie bins to limit waste and improve recycling around the city.

### **Regeneration**

In 2017, the City Council restructured to bring together a group of services into a new Regeneration Directorate. This directorate includes Transport, Environment and Business Support services, as well as responsibility for economic growth, development management and planning. The formation of the Regeneration Directorate will bring about closer working across services in delivering strategic projects for the growth and development of the city.

Traffic and network management is of huge importance in any city but especially in one as tightly constrained as Portsmouth. An upgrade of the traffic management system is nearing completion, alongside a Traffic Signal Optimisation Programme to improve traffic flow. Improving journey times on key routes is a core priority, and two successful bids have been made for Department for Transport funding to add further traffic sensors and make improvements to the data analysis technology to support this objective.

Transport planning centres around the delivery of the Local Transport Plan, an ongoing programme of projects funded by the City Council's capital programme. The programme also includes road safety schemes. Overall figures indicate that these are having the desired impact, with a reduction in traffic collisions against a baseline average. We will continue to monitor casualty figures and design road safety initiatives aimed at those at the highest risk. Active travel schemes remain high-profile and have included the Pedal Portsmouth Glow Ride in October and Monster Walk to School campaign, which reached over 1,000 children. The approved 5-year review of residents' parking zones is progressing well too, with 8 out of 35 schemes reviewed in the first year and changes made.

The directorate also provides business support through the council's portfolio of enterprise centres. The centres remain popular with small businesses and vacancies are filled quickly resulting in high occupancy rates. Rental income plus income from other centre-related services has resulted in the centres exceeding the income target set for the year, which is another example of enterprising and entrepreneurial activity. The Employment, Learning and Skills services delivered under contract with government agencies and prime contractors are performing well, thereby securing continued external funding to deliver support into sustainable work for local people.

The directorate has delivered significant projects over the period - the Hard Interchange was completed at the beginning of 2017/18 and the Eastern Road Waterbridge project was also completed. The North Portsea Island Flood Defence scheme continues to progress well and the Dunsbury Park development is continuing to move forward. The directorate is leading the development of some significant, once in a generation schemes, including the development of the Tipner site, developing plans to bring forward a masterplan for the city centre, and the delivery of the Southsea Coastal Defence Scheme.

### **Corporate Services**

As well as delivering a wide range of services to residents, visitors and businesses in Portsmouth, there are also a range of corporate and professional services that support the running of the organisation.

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

Collection of council tax and business rates continues to be strong, as does the collection of overpaid housing benefits and claiming of Council Tax Benefit subsidy.

Information governance continues to be of great importance, including the servicing of Freedom of Information requests (where we are striving for continuous improvements in achieving statutory timelines) and leading the corporate response to the introduction of the General Data Protection Regulations.

There is continued strong and consistent performance across business-as-usual areas for corporate services. The Childcare legal team performance is still improving from an already high level of performance, and work on delivering a new apprenticeship programme is well on track and delivering early success. Financial governance & accountability targets are being met and strong corporate financial support ensures that we continue our history of meeting budget savings requirements. Successful trading operations, for example with HR services and payroll, and investment strategies are generating new income, although these are not without risk to the organisation.

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

## Financial Statements 2017/18 - Commentary

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

The Financial Statements comprise the following:

- **Statement of Responsibilities for the Statement of Accounts:** This statement sets out the respective responsibilities of the City Council and the Director of Finance & Information Technology (Section 151 Officer i.e. the Chief Financial Officer of the City Council) for the accounts.
- **Movement in Reserves Statement (MIRS):** This statement shows the movement in the year on the different reserves held by the City Council, analysed between usable reserves and unusable reserves. This statement includes:
  - The total comprehensive income and expenditure from the Comprehensive Income and Expenditure Statement
  - The regulatory adjustments that are made to remove the effects of depreciation, actuarial pension costs and capital grants and contributions to show the statutory amounts charged to the General Fund and the Housing Revenue Account for Council Tax setting and dwelling rent setting purposes. These adjustments also include the application of resources to finance capital expenditure
  - Transfers to earmarked reserves which the City Council has decided to set aside for specific purposes
- **Comprehensive Income & Expenditure Statement (CIES):** This statement explains the change in the net worth of the City Council, i.e. the value of its assets less its liabilities. This statement includes the deficit or surplus on the provision of services and other factors affecting the City Council's net worth. The statement is based on International Financial Reporting Standards (IFRS) and includes depreciation and impairments (charges relating to the use and consumption of assets), and the actuarial cost of providing defined benefit pensions. The effect of regulations is such that the City Council does not fund these costs from taxation as they are incurred. This statement also includes capital grants and contributions which the City Council is not permitted to use to fund revenue expenditure.
- **Balance Sheet:** The balance sheet shows the net worth of the City Council, i.e. its assets less its liabilities as at 31 March 2018. 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.

## Expenditure and Funding Analysis

The Expenditure and Funding Analysis below is not a financial statement but a note to the accounts that aims to explain the relationship between the Movement in Reserves Statement (MIRS) and the Comprehensive Income and Expenditure Statement (CIES). The Accounting Code of Practice requires the Expenditure and Funding Analysis to be presented within the main body of the Statement of Accounts (not the Narrative Statement) so that it is covered by the external auditor's opinion. For this reason it is also presented on page 41.

2017/18	Net Expenditure chargeable to the General Fund and HRA	Other Movements	Adjusted Net Expenditure 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	27,173	0	27,173	1,360	28,533
Culture Leisure & Sport	3,899	0	3,899	2,270	6,169
Education	7,687	0	7,687	18,613	26,300
Environment & Community Safety	13,465	0	13,465	2,415	15,880
Governance & Audit & Standards	127	0	127	(1)	126
Adult Social Care & Public Health	41,652	0	41,652	2,210	43,862
Housing	2,652	0	2,652	141	2,793
Leader	125	0	125	50	175
Licensing	(201)	0	(201)	47	(154)
Planning, Regeneration & Economic Development	(11,586)	12,232	646	2,301	2,947
Planning, Regeneration & Economic Development - Port Resources	(8,369)	201	(8,168)	3,051	(5,117)
Traffic & Transportation	17,562	0	17,562	4,449	22,011
	10,896	0	10,896	4,448	15,344
	105,082	12,433	117,515	41,354	158,869
Non-portfolio - HRA	(12,150)	0	(12,150)	(22,232)	(34,382)
Non-portfolio - Other	20,006	0	20,006	(17,561)	2,445
<b>Net Cost of Services</b>	<b>112,938</b>	<b>12,433</b>	<b>125,371</b>	<b>1,561</b>	<b>126,932</b>
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	52	0	52	22,188	22,240
Financing & Investment Income & Expenditure	20,260	(12,433)	7,827	(9,518)	(1,691)
Taxation & Non-specific Grant Income & Expenditure	(161,300)	0	(161,300)	(25,414)	(186,714)
	(140,988)	(12,433)	(153,421)	(12,744)	(166,165)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(28,050)</b>	<b>0</b>	<b>(28,050)</b>	<b>(11,183)</b>	<b>(39,233)</b>



The first column of the Expenditure and Funding Analysis shows the City Council's net expenditure by portfolio in a way that can be compared to the portfolio cash limits. This is shown in the table below.

	<b>Revised Cash Limit £000</b>	<b>Actual Net Expenditure £000</b>	<b>Variance £000</b>	<b>Variance %</b>
Children & Families	23,790	27,173	3,383	14
Culture, Leisure & Sport	3,952	3,899	(53)	(1)
Education #	5,479	7,687	2,208	40
Environment & Community Safety	13,988	13,465	(523)	(4)
Governance and Audit and Standards	98	127	29	30
Health & Social Care	41,691	41,652	(39)	(0)
Housing General Fund	2,620	2,652	32	1
Leader	124	125	1	1
Licensing	(232)	(201)	31	13
Planning, Regeneration & Economic Development (excluding Port)	(10,617)	(11,586)	(969)	(9)
Port	(7,809)	(8,369)	(560)	(7)
Resources	17,933	17,562	(371)	(2)
Traffic & Transportation	10,892	10,896	4	0
	<b>101,909</b>	<b>105,082</b>	<b>3,173</b>	<b>3</b>

# The actual net expenditure for the Education Portfolio includes net expenditure of £2.5m incurred by the governing schools which is outside of the cash limit. The under spend after taking this into account is £0.3m.

Overall portfolios overspent the revised cash limit by £0.7m (excluding expenditure outside the cash limit incurred by the governing bodies of schools) prior to any appropriations to portfolio earmarked reserves. The most significant variances over 5% occurred in the Children & Families, Planning Regeneration & Economic Development, and Port portfolios. These variances are explained below.

Children & Families - £3.4m or 14% overspent

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

Planning, Regeneration and Economic Development (excluding the Port) - £1.0m or 9% underspent

Expenditure was below the revised budget by £0.1m due to lower gas prices, savings from bringing the cleaning contract in house, and net savings in expenditure on electricity following the installation of LED lighting and solar panels. Additional internal income was derived from the Community Wardens and Green and Clean teams being relocated in the Civic Offices.

Additional income of £0.9m was generated through rental growth across the investment property portfolio and new developments.

Port - £0.6m or 7% underspent

Additional income of £0.2m was generated. This was due to an increase in throughput at the cruise and ferry port and an increase in layby dues because of bad weather. An increase in pilotage acts following dredging and survey works also contributed to the increase in income.

Operational costs were £0.3m below budget due to a reduction in repairs and maintenance expenditure following cost improvements, scheme slippage and a reduction in emergency repair work. Operational costs falling to revenue were also reduced through additional costs being charged to capital because of higher than budgeted officer time being spent on the berth 4 linkspan project as a result of scheme complexity.

There was a £0.1m reduction in IT expenditure following a review of IT project delivery and a number of staff training courses moving to 2018/19 because of other work priorities.

Non Portfolio - Housing Revenue Account (HRA) - £5.7m or 87% underspent

£3m of the underspending is attributable to the City Council's decision not to provide for the repayment of HRA borrowing from 2017/18 to 2019/20 when Government policy is for council dwelling rents to be reduced by 1% per annum.

The remainder of the underspend was largely due to posts being vacant.

Non Portfolio Other

Other non-portfolio expenditure includes annual shortfall contributions to the local government pension scheme (£6.8m), investment in subsidiary companies (£4.1m), provision for the repayment of debt (£4.6m) and capital expenditure financed from revenue balances (£5.2m).

Not all cash limited expenditure is within the net cost of services defined by the Accounting Code of Practice. Some cash limited expenditure is included under Financing and Investment Income and Expenditure. In particular the Property, Regeneration and Economic Development Portfolio includes £9.5m of net income from investment properties and £3.0m of net income from trading services which are included under financing and investments in the CIES. This is shown in the other movements column of the Expenditure and Funding Analysis.

The third column of the Expenditure and Funding Analysis headed "Adjusted Net Expenditure chargeable to the General Fund and HRA" shows portfolio expenditure contributing to the net cost of services, i.e. excluding investment properties and trading services.

The CIES records the City Council's income and expenditure on an IFRS basis. To facilitate this, a number of adjustments are required. These are shown in the fourth column of the Expenditure and Funding Analysis headed "Adjustments between Accounting & Funding Basis". These adjustments relate to net comprehensive income which increases the City Council's net worth but are either not cashable, or are capital in nature and statute prevents the income being credited to General Fund and HRA balances. These adjustments, which increase net comprehensive income include capital grants and contributions of £25.4m partly offset by revaluation gains, depreciation and impairment of £2.1m. The adjustments increasing net comprehensive income are partly offset by £10.5m of pension adjustments. These are in respect of the net interest expense on the change during the period in the value of the pension liability arising from the passage of time.

The fifth column shows net income or expenditure in the CIES after all the adjustments described above have been made.

### **Movement in Reserves Statement (MIRS)**

The MIRS summarises how the City Council's reserves have moved over the last two years. General Balances including the General Fund, Earmarked General Fund Reserves, HRA and HRA Capital Reserve increased by £28.1m in 2017/18 (£23.5m in 2016/17). This increase in General Balances is detailed in the first column of the Expenditure and Funding Analysis headed Net Expenditure chargeable to the General Fund and HRA.

The City Council's principal usable reserves and the reasons for the movements in those reserves are detailed below.

#### 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 £24.1m (£25.2m in 2016/17)**

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

	<b>Schools (General Fund)</b>	<b>Rest of City Council (General Fund)</b>	<b>Total General Fund Balance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Balance brought forward as at 1st April 2017	<b>(6.0)</b>	<b>(19.2)</b>	(25.2)
Contribution (to) / from Reserves	2.5	(1.4)	1.1
<b>Balance carried forward as at 1st April 2018</b>	<b>(3.5)</b>	<b>(20.6)</b>	<b>(24.1)</b>

**Note:** Brackets represent surpluses

The total deficit (or withdrawal of reserves) of the City Council amounted to £1.1m.

The City Council's Revised Budget for 2017/18 (excluding schools) estimated that the City Council would make a contribution to Reserves of £1.4m. This level of contribution was consciously planned. The ultimate aim is for in-year expenditure to match in-year income. The City Council's actual contribution to General Reserves was £1.4m in line with the revised budget.

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

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

- Transforming to an entrepreneurial council through income generation; maximising the return on property assets; investing for commercial gain; developing and establishing commercial services to sell services profitably; capital investment for jobs and business growth (increased business rates); establishing strategic partnerships / shared service arrangements to reduce costs and increase resilience
- Reducing the extent to which the population needs council services through improving prosperity and managing demand
- Increasing efficiency and effectiveness by improving value for money across all services
- Withdrawing or offering minimal provision for low impact services

#### **Housing Revenue Account General Reserve - Balance £25.1m (£18.6m in 2016/17)**

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

#### Earmarked Reserves

Earmarked reserves hold funds which the City Council has decided to set aside for specific purposes. The City Council's earmarked reserves (both general fund and HRA) amount to £154.4m (£131.7m in 2016/17). The more significant earmarked reserves are described below.

### **Earmarked for Capital Purposes – Balance £38.7m (£35.0m in 2016/17)**

This is a reserve that is maintained as a source of funding for the Capital Programme. The reserve increased in the year by £3.7m as contributions from General Fund 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 £17.5m (£16.2m in 2016/17)**

This reserve was created as a means to fund spend to save schemes to facilitate efficiencies and go some way towards addressing the City Council's future years' forecast deficits. It is also used to provide for any redundancy costs associated with such schemes and any other service rationalisation proposals which give rise to on-going savings. £1.3m was added to the reserve in 2017/18. The current balance of £17.5m is largely committed to funding schemes previously approved by the City Council or future anticipated redundancy costs.

### **Private Finance Initiative – Balance £9.7m (£10.7m in 2016/17)**

This reserve accumulates any surplus of Government Grants received in respect of Private Finance Initiative (PFI) schemes over and above the debt financing costs associated with those schemes. Whilst surpluses are realised in the early years of these typically 20-year plus schemes, deficits will arise in the later years. This reserve is maintained to fund those deficits in later years. In the year, the reserve decreased by £1.0m reflecting the net deficit between the Unitary Payments made to the PFI contractor and the PFI Grant, interest and contributions accruing to the reserve.

### **City Deal Reserves - Balance £23.6m (£23.3m in 2016/17)**

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. The balance on this reserve increased by £0.3m in 2017/18 due to interest transferred into this reserve.

### **Highways Maintenance Reserve £7.9m (£6.0m in 2016/17)**

This reserve is to fund the ongoing maintenance costs of improvements to the highways network. This reserve increased by £1.9m in 2017/18 as sums were added to fund the maintenance costs arising from recently completed improvements to the highways network and interest was transferred to the reserve.

### **Investment Reserve £7.9m**

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

### **Portfolio Reserves - Balance £9.1m (£8.0m in 2016/17)**

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

## **Other Reserves**

### **Major Repairs Reserve - Balance £1.8m (£0m in 2016/17)**

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 £19.4m in 2017/18. £17.6m of this entire sum was applied to fund HRA capital expenditure leaving a balance of £1.8m.

### **Capital Receipts Reserve - Balance £13.4m (£13.8m in 2016/17)**

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 £0.4m in 2017/18 as the amount used to finance capital expenditure exceeded the amounts received as usable capital receipts.

### **Capital Grants Unapplied - Balance £53.2m (£54.1m in 2016/17)**

This reserve holds grants that may only be applied to fund capital expenditure. This reserve decreased by £0.9m in 2017/18 as the amount of capital grants applied to finance capital expenditure exceeded the amount of capital grants received in the year.

## **Capital Investment**

Capital investment in 2017/18 amounted to £122.3m (£213.9m in 2016/17). The only major item of capital expenditure was major repairs to council dwellings upon which £17.9m was expended (£22.3m in 2016/17).

The City Council has £106.4m available to fund capital expenditure consisting of the General Fund Earmarked Reserve for Capital Purposes £38.7m, the HRA Capital Reserve £1.1m, Capital Grants Unapplied £53.2m and Capital Receipts Reserve £13.4m.

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

- Coastal flood defences £82.1m
- Local Enterprise Partnership £70.5m
- Major repairs to council dwellings £102.2m

## **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 surplus on the provision of services 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 increased by £68.3m from £58.6m in 2016/17 to £126.9m in 2017/18. The majority of this increase was due to a decrease in net income from Local Authority Housing (HRA).

Net income from Local Authority Housing (HRA) decreased by £50.8m; from £85.2m to £34.4m. This is largely due to a reduced reversal of previous impairments to the value of council houses being credited to the Comprehensive Income and Expenditure Statement. The amount of impairments to the value of HRA assets that were reversed in year decreased by £50.4m; from £75.1m in 2016/17 to £24.7m in 2017/18. Services are charged when property, plant and equipment is either damaged or revalued downwards by an amount that exceeds the Revaluation Reserve for the asset. If an asset is subsequently revalued upwards the charge to the service is reversed, reducing that service's expenditure. Downward revaluation charges only crystallise in cash terms if the asset is sold and regulations have the effect of reversing out downward revaluation charges in the Movement in Reserves Statement so that they do not affect the General Fund and HRA balances for tax setting and dwelling rent setting purposes.

## **Other Operating Expenditure**

Net other operating expenditure and income has increased by £17.2m from net expenditure of £5.0m in 2016/17 to net expenditure of £22.2m in 2017/18. The vast majority of other operating expenditure relates to losses on the disposal of non-current assets which deteriorated by £16.8m from a loss of £4.5m in 2016/17 to a loss of £21.3m in 2017/18.

This is because the number of schools transferring to academy trusts increased from 3 schools in 2016/17 to 12 schools in 2017/18. As the schools are transferred to academy trusts for no consideration an increase in the number of schools transferring increases the loss on disposal of non-current assets.

## **Financing and Investment Income and Expenditure**

Net income from financing and investment activities has increased by £28.8m from net expenditure of £27.1m in 2016/17 to a net income of £1.7m in 2017/18. This was mainly due to net revaluation gains on investment properties of £18.5m.

## **Other Comprehensive Income and Expenditure**

In 2017/18, this part of the Comprehensive Income and Expenditure Statement saw an improvement of £26.6m with other comprehensive net income amounting to £3.1m. The Other Comprehensive Income and Expenditure section of the Comprehensive Income and Expenditure Statement consists of movements in the City Council's unusable reserves, principally the Revaluation Reserve and the Pensions Reserve, which affect the City Council's net worth but not its spending ability.

Overall Total Comprehensive Income and Expenditure has deteriorated by £40.0m from a net income of £82.4m in 2016/17 to a net income of £42.4m in 2017/18.

## Revaluation Reserve

On the Balance Sheet, gains amounting to £23.7m arising from the revaluation of non-current assets were posted to the Revaluation Reserve in 2017/18 (£6.4m of revaluation gains were posted to the Revaluation Reserve in 2016/17). However, these gains can only be realised by selling the assets.

## Pension Liability and Pension Reserve

The pension liability shown on the balance sheet represents the shortfall between the value of the City Council's pension liability and the value of the pension fund assets. The pension fund's actuaries estimate the fund's assets and liabilities on an annual basis in order to enable the City Council to comply with International Financial Reporting Standards. The City Council's contributions to the pension fund are based on a full triennial valuation by the fund's actuaries. Regulations require the City Council's actual contributions to the pension fund to be charged to the General Fund and HRA balances. This is achieved by transferring the difference between the actuarial cost of providing pensions and the City Council's actual contributions from a Pension Reserve to the General Fund and HRA balances. The Pension Reserve therefore mirrors the pension liability and is not cash backed. The Pension Reserve also reflects changes to the pension liability resulting from returns on pension fund assets in excess of that expected, changes in the financial and demographic assumptions used by the actuary and liability experience. The City Council's estimated pension liability net of pension fund assets as at 31 March 2018 was £385.9m which is very significant when compared to the City Council's net worth of £830.3m. The estimated pension liability was £354.8m at 31 March 2017, but increased by £31.1m in 2017/18 as the increase in the pension liabilities exceeded gains to the pension fund assets.

## Other Long Term Liabilities

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

- Long Term Borrowing - £553.0m (£559.8m in 2016/17). Long term borrowing has decreased because £8.0m of maturing debt was repaid but only £1.2m of new borrowing was undertaken.
- Other Long Term Liabilities including service concessions (including Private Finance Initiative schemes) and debt transferred from Hampshire County Council following local government reorganisation - £90.6m (£93.5m in 2016/17).

The City Council's total long term borrowings are therefore £643.6m (£653.3m in 2016/17). To put this into context, the City Council's long term assets are valued at £1,569.1m (£1,537.5m in 2016/17).

## Long Term Assets

The value of the City Council's long term assets has increased slightly by £31.6m from, £1,537.5m at 31 March 2017 to £1,569.1m at 31 March 2018.

## Short Term Debtors

The value of short term debtors has increased by £14.1m from £42.5m at 31 March 2017 to £56.6m at 31 March 2018. Impairment allowances for bad debts increased by £0.2m.



The increase in central government debtors of £6.8m mainly relates to an increase in the VAT debtor of £1.6m arising from large capital payments in March 2018 relating to a new link span at the port and Portsmouth Retail Park; a housing benefit subsidy debtor of £3.3m arising from subsidy paid through the year on an estimated basis (in 2016/17 this was a creditor); and £1.1m of Heritage Lottery funding relating to works at the D Day Museum undertaken in the last quarter of 2017/18.

Other payments in advance increased by £2.9m. The majority of this relates to prepayments for the summer term for children educated outside the city because Easter was early in 2017/18.

Other debtors increased by £4.2m in 2017/18. £1.8m of this increase relates to an increase in Community Infrastructure Levy payments. Other year end debtors vary according to activity in March and when Easter falls.

### **Short Term Creditors**

The value of short term creditors increased slightly by £4.1m from £73.6m at 31 March 2017 to £77.7m at 31 March 2018.

### **Net Worth**

The City Council's overall net worth increased by £42.4m in 2017/18 from £787.9m at 31 March 2017 to £830.3m at 31 March 2018 due to the reasons set out in the Comprehensive Income and Expenditure Statement.

### **The Cash Flow Statement**

In year 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 £27.7m (outflow of £18.2m in 2016/17) from the Council's operating activities.

There was an outflow of cash of £14.8m from investing activities in 2017/18. In 2016/17 this was an outflow of £138.9m. The size of the cash outflow in 2016/17 was largely due to the purchase of investment properties for £82.5m.

There was an outflow of cash of £32.1m from financing activities in 2017/18. In 2016/17 this was an inflow of £159.8m. The large cash inflow from financing activities in 2016/17 was a result of borrowing £177.6m. Of the £177.6m borrowed, £167.1m was new borrowing, and £10.5m was borrowed to replace a more expensive Public Works Loans Board (PWLB) loan that was repaid early.

In 2017/18 there was an overall decrease in the City Council's cash and cash equivalents of £19.2m from £41.4m as at 31 March 2017 to £22.2m as at 31 March 2018.

### **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 non-domestic rates from taxpayers and the distribution of council tax and non-domestic rates to local authorities and the Government.

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 2018 it was anticipated that there would be a £1.2m surplus on Council Tax and a £1.1m surplus on non-domestic rates, i.e. the fund would have a total surplus of £2.3m. The Budget for 2018/19 was prepared on this basis i.e. that there would be a withdrawal of this surplus of £2.3m during 2018/19.

### **Council Tax**

There was an unplanned increase in the Collection Fund balance relating to Council Tax of £0.3m (i.e. the actual surplus of £1.5m less the budgeted surplus of £1.2m).

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

### **Non-Domestic Rates**

The deterioration in the balance relating to non-domestic rates was £1.2m (i.e. the actual deficit of £0.1m plus the budgeted surplus of £1.1m). This was caused by a refund of non-domestic rates to the Ministry of Defence on 30 March 2018 following a review of the rateable value.

The City Council administers the collection of non-domestic rates on behalf of the City Council, the Department of Communities & Local Government, and the Hampshire Fire & Rescue Authority and therefore any surplus or deficit on the fund is shared with them. Should the unplanned deterioration on non-domestic rate income of £1.2m remain, this would be distributed in 2018/19 as follows:

- Department of Communities & Local Government £0.6m
- Portsmouth City Council £0.6m
- Hampshire Fire & Rescue Authority £0.0m

### **Overall Position**

The actual combined surplus on the Collection Fund at the end of 2017/18 was £1.3m i.e. £1.0m lower than anticipated. Since the Budget and Council Tax for 2017/18 was set on the basis of a £2.3m surplus, the deterioration of £1.0m from the estimate must be released through the 2019/20 budget process. An estimate of the Collection Fund balance as at the end of 2018/19 will be revised in the light of this deterioration and all other circumstances just prior to setting the Council Tax and Budget for the next financial year.

Overall the City Council has a £0.6m share of the unplanned deficit on non-domestic rate collection and a £0.2m share of the unplanned surplus on Council Tax Collection, i.e. a net overall unplanned deficit of £0.4m.

Any unplanned deficit that relates to the City Council (i.e. £0.4m) will be transferred from General Fund Reserves in 2018/19 and planned into future financial forecasts accordingly.

## **The Housing Revenue Account (HRA)**

Overall the HRA made a surplus of £29.4m in the year 2017/18. This represents a major deterioration compared with 2016/17 (£80.8m surplus) of £51.4m. This deterioration has principally been caused by a reduction in the reversal of downward revaluation charges on Council dwellings. Whilst the HRA made a surplus, the accounting arrangements for Local Authorities are such that many of the charges including downward revaluation charges are not passed on to the Council Rent payer in a single year, rather they are reversed in the Movement in Reserves Statement and the charges spread over future years. The combination of all of those adjustments allowed under statute has reduced the £29.4m surplus into a £6.5m surplus. This £6.5m increase in the HRA General Reserve represents the excess of income generated over expenditure in 2017/18.

## **Conclusion**

In 2017/18 the City Council has experienced an increase in its General Reserves (excluding schools) of £1.4m and this represents the extent to which the City Council's in-year income has exceeded its in-year expenditure. This was in line with the budgeted contribution to General Reserves of £1.4m.

The balance on the Collection Fund of £1.3m is less than the anticipated surplus of £2.3m reflected within the Budget. The City Council's share of the £1.0m unplanned budget deficit is £0.4m. As the Council's actual net expenditure was in line with its revised budget, this represents an overall net deterioration in the City Council's overall medium term financial position of £0.4m compared with the revised budget.

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

In addition to this, the Housing Revenue Account made a surplus after statutory adjustments and contributions from the HRA Capital Reserve of £6.5m compared to a planned surplus of £0.8m.

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

**Chris Ward**  
**Director of Finance and Information Technology (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 & Information Technology (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 & Information Technology (Section 151 Officer)

The Director of Finance & Information Technology (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 & Information Technology (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 & Information Technology (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 2018.

Signed

**Chris Ward**  
**Director of Finance and Information Technology (Section 151 Officer)**

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## Expenditure & Funding Analysis

While the Expenditure and Funding Analysis (EFA) is not a financial statement, it demonstrates to council tax payers how the funding available to the City Council (i.e. Government Grants, rents, Council Tax and Business Rates) for the year has been used in providing services in comparison with those resources consumed or earned by the City Council in accordance with generally accepted accounting practices. The EFA also shows how this expenditure is allocated for decision making purposes between the City Council's portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17	Net Expenditure chargeable to the General Fund and HRA £000	Other Movements £000	Adjusted Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Accounting & Funding Basis (Note 7) £000	Net (Income) or Expenditure in the Comprehensive Income & Expenditure Statement £000
Portfolios:					
Children & Education	0	0	0	0	0
Children's Social Care	24,308	0	24,308	463	24,771
Education	3,949	0	3,949	5,050	8,999
Culture Leisure & Sport	5,489	0	5,489	2,277	7,766
Environment & Community Safety	13,309	0	13,309	1,035	14,344
Governance & Audit	263	0	263	33	296
Health & Social Care	45,301	0	45,301	1,811	47,112
Housing	2,673	0	2,673	483	3,156
Leader	116	0	116	9	125
Licensing	(262)	0	(262)	22	(240)
PRED	(7,880)	8,132	252	(601)	(349)
PRED - Port	(6,757)	139	(6,618)	2,642	(3,976)
Resources	18,530	0	18,530	3,498	22,028
Traffic & Transportation	10,190	0	10,190	5,823	16,013
	109,229	8,271	117,500	22,545	140,045
Non-portfolio - HRA	(8,845)	0	(8,845)	(76,401)	(85,246)
Non-portfolio - Other	18,162	0	18,162	(14,388)	3,774
<b>Net Cost of Services</b>	<b>118,546</b>	<b>8,271</b>	<b>126,817</b>	<b>(68,244)</b>	<b>58,573</b>
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	(603)	0	(603)	5,600	4,997
Financing & Investment Income & Expenditure	22,052	(8,271)	13,781	13,335	27,116
Taxation & Non-specific Grant Income & Expenditure	(163,481)	0	(163,481)	(33,021)	(196,502)
	(142,032)	(8,271)	(150,303)	(14,086)	(164,389)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(23,486)</b>	<b>0</b>	<b>(23,486)</b>	<b>(82,330)</b>	<b>(105,816)</b>

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

2016/17	General Fund and Earmarked Reserves £000	HRA Reserves £000	Total £000
Opening balances at 1st April	(132,842)	(19,253)	(152,095)
Plus net surplus on in year balance	(22,657)	(829)	(23,486)
Closing balances at 31st March	(155,499)	(20,082)	(175,581)



This table is also presented in the Narrative Statement to assist readers of the accounts.

2017/18	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	27,173	0	27,173	1,360	28,533
Culture Leisure & Sport	3,899	0	3,899	2,270	6,169
Education	7,687	0	7,687	18,613	26,300
Environment & Community Safety	13,465	0	13,465	2,415	15,880
Governance & Audit & Standards	127	0	127	(1)	126
Adult Social Care & Public Health	41,652	0	41,652	2,210	43,862
Housing	2,652	0	2,652	141	2,793
Leader	125	0	125	50	175
Licensing	(201)	0	(201)	47	(154)
Planning, Regeneration & Economic Development	(11,586)	12,232	646	2,301	2,947
Planning, Regeneration & Economic Development - Port Resources	(8,369)	201	(8,168)	3,051	(5,117)
Traffic & Transportation	17,562	0	17,562	4,449	22,011
	10,896	0	10,896	4,448	15,344
	105,082	12,433	117,515	41,354	158,869
Non-portfolio - HRA	(12,150)	0	(12,150)	(22,232)	(34,382)
Non-portfolio - Other	20,006	0	20,006	(17,561)	2,445
<b>Net Cost of Services</b>	<b>112,938</b>	<b>12,433</b>	<b>125,371</b>	<b>1,561</b>	<b>126,932</b>
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	52	0	52	22,188	22,240
Financing & Investment Income & Expenditure	20,260	(12,433)	7,827	(9,518)	(1,691)
Taxation & Non-specific Grant Income & Expenditure	(161,300)	0	(161,300)	(25,414)	(186,714)
	(140,988)	(12,433)	(153,421)	(12,744)	(166,165)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(28,050)</b>	<b>0</b>	<b>(28,050)</b>	<b>(11,183)</b>	<b>(39,233)</b>

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

2017/18	General Fund and Earmarked Reserves	HRA Reserves	Total
	£000	£000	£000
Opening balances at 1st April	(155,499)	(20,082)	(175,581)
Plus net surplus on in year balance	(21,898)	(6,152)	(28,050)
Closing balances at 31st March	(177,397)	(26,234)	(203,631)

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the City Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the City Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. These adjustments are detailed in Note 7. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the 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 (See Note B) £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserve £000
<b>Movement in reserves during 2016/17</b>	<b>(22,754)</b>	<b>(110,088)</b>	<b>(13,907)</b>	<b>(5,346)</b>	<b>0</b>	<b>(17,496)</b>	<b>(45,181)</b>	<b>(214,772)</b>	<b>(490,744)</b>	<b>(705,516)</b>
Deficit or (Surplus) on the provision of services	(24,972)		(80,844)	0	0	0	0	(105,816)	0	(105,816)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	23,451	23,451	23,451
<b>Total Comprehensive Expenditure and Income</b>	<b>(24,972)</b>	<b>0</b>	<b>(80,844)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(105,816)</b>	<b>23,451</b>	<b>(82,365)</b>
Adjustments between accounting basis & funding basis under regulations (see note 9)	2,313	0	80,018	0	0	3,656	(8,908)	77,079	(77,079)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(22,659)</b>	<b>0</b>	<b>(826)</b>	<b>0</b>	<b>0</b>	<b>3,656</b>	<b>(8,908)</b>	<b>(28,737)</b>	<b>(53,628)</b>	<b>(82,365)</b>
Transfers (to) / from Earmarked Reserves (See Note 10)	20,155	(20,155)	(3,876)	3,876	0	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>(2,504)</b>	<b>(20,155)</b>	<b>(4,703)</b>	<b>3,876</b>	<b>0</b>	<b>3,656</b>	<b>(8,908)</b>	<b>(28,737)</b>	<b>(53,628)</b>	<b>(82,365)</b>
<b>Balance at 31 March 2017 carried forward</b>	<b>(25,258)</b>	<b>(130,243)</b>	<b>(18,610)</b>	<b>(1,470)</b>	<b>0</b>	<b>(13,840)</b>	<b>(54,089)</b>	<b>(243,509)</b>	<b>(544,372)</b>	<b>(787,881)</b>
<b>Movement in reserves during 2017/18</b>										
Deficit or (Surplus) on the provision of services	(9,812)		(29,421)	0	0	0	0	(39,233)	0	(39,233)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	(3,136)	(3,136)
<b>Total Comprehensive Expenditure and Income</b>	<b>(9,812)</b>	<b>0</b>	<b>(29,421)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(39,233)</b>	<b>(3,136)</b>	<b>(42,369)</b>
Adjustments between accounting basis & funding basis under regulations (see note 9)	(12,084)	0	23,262	0	(1,840)	419	932	10,689	(10,689)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(21,896)</b>	<b>0</b>	<b>(6,159)</b>	<b>0</b>	<b>(1,840)</b>	<b>419</b>	<b>932</b>	<b>(28,544)</b>	<b>(13,825)</b>	<b>(42,369)</b>
Transfers (to) / from Earmarked Reserves (See Note 10)	23,069	(23,069)	(351)	351	0	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>1,173</b>	<b>(23,069)</b>	<b>(6,509)</b>	<b>351</b>	<b>(1,840)</b>	<b>419</b>	<b>932</b>	<b>(28,544)</b>	<b>(13,825)</b>	<b>(42,369)</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>(24,085)</b>	<b>(153,312)</b>	<b>(25,119)</b>	<b>(1,119)</b>	<b>(1,840)</b>	<b>(13,421)</b>	<b>(53,157)</b>	<b>(272,053)</b>	<b>(558,197)</b>	<b>(830,250)</b>

**Note A**

£3.5m of the General Fund Balance at 31st March 2018 (£6.0m at 31st March 2017) represents school's balances which can only be spent by schools under devolved budgetary arrangements.

**Note B**

The balance of capital grants unapplied at 31 March 2018 includes £11.3m (£8.8m at 31 March 2017) of Community Infrastructure Levy.

## 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.

2016/17				2017/18			
Gross Expenditure	Gross Income	Net Expenditure	Notes	Gross Expenditure	Gross Income	Net Expenditure	
£000	£000	£000		£000	£000	£000	
28,144	(3,374)	24,770	Children & Families	32,329	(3,796)	28,533	
12,120	(4,355)	7,765	Culture Leisure & Sport	9,656	(3,487)	6,169	
120,399	(111,400)	8,999	Education	117,992	(91,692)	26,300	
16,637	(2,293)	14,344	Environment & Community Safety	17,767	(1,886)	15,881	
904	(608)	296	Governance & Audit & Standards	739	(613)	126	
86,217	(39,105)	47,112	Adult Social Care & Public Health	89,256	(45,394)	43,862	
6,620	(3,464)	3,156	Housing	6,650	(3,857)	2,793	
144	(19)	125	Leader	203	(28)	175	
663	(903)	(240)	Licensing	721	(875)	(154)	
4,427	(4,776)	(349)	Planning, Regeneration & Economic Development	8,135	(5,188)	2,947	
10,778	(14,754)	(3,976)	Planning, Regeneration & Economic Development - Port	11,223	(16,340)	(5,117)	
138,978	(116,949)	22,029	Resources	134,884	(112,874)	22,010	
27,285	(11,273)	16,012	Traffic & Transportation	27,390	(12,046)	15,344	
453,316	(313,273)	140,043		456,945	(298,076)	158,869	
(2,051)	(83,195)	(85,246)	Non-portfolio - HRA	49,045	(83,427)	(34,382)	
48,178	(44,403)	3,775	Non-portfolio - Other	14,421	(11,976)	2,445	
<b>499,443</b>	<b>(440,871)</b>	<b>58,572</b>	<b>Cost of Services</b>	<b>520,411</b>	<b>(393,479)</b>	<b>126,932</b>	
5,625	(627)	4,997	Other Operating Expenditure	11a	24,704	(2,464)	22,240
45,193	(18,077)	27,116	Financing & Investment Income & Expenditure	11b	37,503	(39,194)	(1,691)
0	(196,501)	(196,501)	Taxation & Non-specific Grant Income & Expenditure	11c	0	(186,714)	(186,714)
<b>550,261</b>	<b>(656,076)</b>	<b>(105,816)</b>	<b>(Surplus)/Deficit on Provision of Services</b>	<b>582,618</b>	<b>(621,851)</b>	<b>(39,233)</b>	
<i>Items that will not be reclassified to the (Surplus)/Deficit on Provision of Services</i>							
		(6,354)	(Surplus)/Deficit on Revaluation of PPE Assets			(23,697)	
		30,018	Remeasurement of Net Defined Benefit Liability			20,572	
<i>Items that may be reclassified to the (Surplus)/Deficit on Provision of Services</i>							
		(213)	(Surplus)/Deficit on Revaluation of Available for Sale Assets			(15)	
		<b>23,451</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(3,140)</b>	
		<b>(82,365)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(42,373)</b>	

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 2017/18 (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.

## **Balance Sheet**

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

<b>31 March 2017 £000</b>	<b>Notes</b>	<b>31 March 2018 £000</b>
1,183,960 Property, Plant & Equipment	12	1,249,098
63,256 Heritage Assets	15	74,332
145,547 Investment Property	16	163,132
1,894 Intangible Assets		1,480
113,378 Long Term Investments		52,835
29,455 Long Term Debtors	20	28,248
<b>1,537,490 Long Term Assets</b>		<b>1,569,125</b>
290,399 Short Term Investments		347,361
225 Inventories		298
42,483 Short Term Debtors	21	54,579
41,435 Cash & Cash Equivalents	22	22,233
<b>374,542 Current Assets</b>		<b>424,471</b>
(12,341) Short Term Borrowing		(12,116)
(73,605) Short Term Creditors	23	(77,665)
(3,436) Other Short Term Liabilities		(3,159)
(14,396) Capital Grant Receipts in Advance	35	(30,217)
(3,044) Provisions	24	(3,116)
<b>(106,822) Current Liabilities</b>		<b>(126,273)</b>
(93,450) Other Long Term Liabilities	25	(90,603)
(7,472) Provisions	24	(5,630)
(559,831) Long Term Borrowing		(552,978)
(354,840) Pension Liability	41	(385,896)
(1,739) Capital Grant Receipts in Advance	35	(1,966)
<b>(1,017,332) Long Term Liabilities</b>		<b>(1,037,073)</b>
<b>787,878 Net Assets</b>		<b>830,250</b>
(243,508) Usable Reserves		(272,053)
(544,370) Unusable Reserves	26	(558,197)
<b>(787,878)</b>		<b>(830,250)</b>

**Chris Ward**

**Director of Finance and Information Technology (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.

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
105,816	Net surplus or (deficit) on the provision of services	39,233
	Notes	
(35,822)	Adjustment to surplus or deficit on the provision of services for noncash movements	34,727
	27a	
(88,179)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(46,255)
	27a	
(18,185)	Net Cash flows from operating activities	27,705
(138,946)	Net Cash flows from Investing Activities	(14,836)
	27b	
159,761	Net Cash flows from Financing Activities	(32,071)
	27b	
2,630	Net increase or decrease in cash and cash equivalents	(19,202)
38,805	Cash and cash equivalents at the beginning of the reporting period	41,435
41,435	Cash and cash equivalents at the end of the reporting period	22,233
	22	

## **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 2017/18 financial year and its financial position at 31 March 2018.

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.

#### **Accruals of Income & Expenditure**

Financial Statements other than the Cash Flow Statement are prepared on an accruals basis. This means that the sums due to or from the City Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year being reported. Accruals have been made for all known items of income and expenditure exceeding £1,000 including capital debtors and creditors, for goods and services supplied by and to the City Council, during the year. The Financial Statements therefore record the date when the obligation arises rather than when it is settled by a cash transaction.

#### **Exceptional Items**

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

#### **Prior Period Adjustments, Changes in Accounting Policies and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct an error.

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

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



## **Fair Value Measurement**

The City Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) In the principal market for the asset or liability, or
- b) In the absence of a principal market, in the most advantageous market for the asset or liability.

The City Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the City Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The City Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the City Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

## **Non-current Assets**

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

Assets are initially measured at cost comprising:

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

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

Assets constructed by the City Council, including enhancements to existing assets, are initially included in Assets Under Construction before being transferred to the appropriate asset category upon completion. Assets purchased in an operational state without requiring construction or installation are not initially included in Assets Under Construction but are included under the appropriate asset category for operational assets upon completion of their purchase.

The City Council has a de minimis policy of not recognising assets with a value of less than £20,000 on its balance sheet. New assets worth less than £20,000 are fully impaired at practical completion.

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

**Property, plant and equipment** are used for service provision.

**Infrastructure assets** (e.g. coastal defences) are included in the balance sheet at historic cost, net of depreciation.

**Community assets** (e.g. Parks) and assets under construction are included in the balance sheet at historic cost.

**Council dwellings** are valued on an existing use basis (social housing).

**All other property plant and equipment** is included in the balance sheet at market value based on existing use.

Historic cost is used as a proxy for market value for **vehicles and plant**.

**Specialised assets** are included at depreciated replacement cost if there is insufficient evidence to determine market value in existing use.

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

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

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

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

Services, Support Services and Trading Accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

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

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

The City Council is required to raise Housing Revenue Account (HRA) rents to fund depreciation on dwellings. HRA depreciation is credited to the Major Repairs Reserve in the Movement in Reserves Statement. The Major Repairs Reserve can only be used to fund HRA capital expenditure or the repayment of HRA debt.

## **Impairment**

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

It is not the City Council's policy to write out accumulated impairments when assets are revalued.

## **Depreciation**

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

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

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

### **Disposal of Non-current Assets**

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

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

### **Investment Properties**

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

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

### **Heritage Assets**

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

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

There is insufficient evidence of what the market value would be for Southsea Castle and the fortifications at the harbour entrance at Old Portsmouth so these assets are carried in the City

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

b) Museum Collections

The museum collections are reported in the Balance Sheet at their current values determined by external valuers and staff in the museum's service.

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

c) Archives

The archive collections are reported in the Balance Sheet on current values determined by staff in the museum's service.

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

### **Revenue Expenditure Funded from Capital under Statute**

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

### **Government Grants**

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

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

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

### **Community Infrastructure Levy**

The City Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consents. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure contracts and support development of the area.

CIL is received without outstanding conditions. It is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy government grants and contributions set out above. CIL charges will largely be used to fund capital expenditure. However, a portion of the charges will be used to fund revenue expenditure.

### **Cash Equivalents**

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

### **Provisions**

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

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

## Reserves

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

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

## Leases

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

### a) Finance Leases Where the City Council is the Lessee

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

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

### b) Finance Leases Where the City Council is the Lessor

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

### c) Operating Leases

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

## **Support Services & Overheads**

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

## **Employee Benefits Payable during Employment**

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

## **Retirement Benefits**

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

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

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

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

## **Long-Term Contracts (PFI Accounting Policy)**

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



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

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

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

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

### **Value Added Tax**

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

### **Financial Liabilities**

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

### **Financial assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments

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

### **Loans and receivables**

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

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

## **Maintained Schools**

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

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

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

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

## **Solent Local Enterprise Partnership (LEP)**

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

## **Apportionment of Interest Costs to the Housing Revenue Account**

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

## 2. Accounting Standards Issued but not yet Adopted

The following accounting standards have been issued and will be adopted by the 2017/18 Code of Practice on Local Authority Accounting:

- IFRS 9 Financial Instruments (Amendments to the classification of financial assets and change in impairment rules)
- IFRS 15 Revenue from Contracts with Customers (Amendments and clarifications)
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

It is anticipated that amendments above will not have a material impact on the information provided in the financial statements.

## 3. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the City Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the City Council might be impaired as a result of the need to close facilities and reduce levels of service provision.
- The City Council is deemed to control the services provided under outsourcing agreements for Milton Cross School, learning disability facilities, and highways maintenance, and also to control the residual value of the assets at the end of the agreements. The value of these assets as at 31 March 2018 was £115.8m. 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 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 £9.3m as at 31 March 2018) are recognised as Property, Plant and Equipment on the City Council's balance sheet.
- The City Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. Where earning rentals is an outcome of a regeneration policy or providing facilities on out of town housing estates, the properties concerned are accounted for as property, plant and equipment rather than investment property. The classification determines the valuation method used and whether depreciation and impairments are charged to the cost of services.

- The City Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The primary tests consist of:
  - whether the lease transfers ownership of the asset to the lessee by the end of the lease term
  - whether the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain that the option will be exercised
  - the lease term is for the major part of the economic life of the asset (the City Council has taken the view that the term of a finance lease would equate to over half the asset's life)
  - the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset (the City Council has taken the view that the net present value of the minimum lease payments under a finance lease would amount to at least 80% of the fair value of the asset)
  - whether the leased assets are of such a specialised nature that only the lessee can use them without major modifications

The outcomes of these tests are considered individually and collectively. The accounting treatment for operating and finance leases is significantly different and could have a significant effect on the accounts.

- The City Council has made judgements about whether it controls voluntary aided and voluntary controlled schools. The City Council does not own these buildings and the Governing Bodies are responsible for capital works. The City Council does not have access to the sale proceeds if the assets were disposed of and any decision to dispose of the assets requires the approval of the secretary of state. Therefore, in light of these factors and guidance in CIPFA's Technical Note 40(01), the City Council does not consider that it controls these schools and has not included them on its balance sheet.

#### **4. Assumptions made on 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:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
<b>Fair Value Measurements</b>	<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 staff from the Property &amp; Housing Service.</p>	<p>The City Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties.</p> <p>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>
<b>Pensions Liability</b>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. 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 £386m. The effects on the net pension liability of changes in individual assumptions can be measured. However; the assumptions interact in complex ways.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Arrears</b>	<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 £14.9m. A review of significant balances suggested that an impairment of doubtful debts of 24% (£3.6m) was appropriate.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £3.6m to set aside as an allowance for sundry debtors alone.</p>
<b>Non Domestic Rates</b>	<p>The City Council retains 49% of the non-domestic rates that it collects. The amounts of non-domestic rates collected is affected by appeals, both lodged and potential appeals that have yet to be lodged, against the rateable values of non-domestic properties.</p> <p>Owing to the 2017 revaluation a new set of appeals are expected across the rating list. In the absence of more meaningful information, we have used the 4.7% figure that Central Government have assumed will be the national decline in rateable values from appeals.</p> <p>On this basis the Council has made a provision of £15.2m in 2017/18. The City Council's share of this provision is £7.4m.</p>	<p>The effects on non-domestic rate income of changes in individual assumptions can be measured. However, the assumptions interact with each other.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Inseparable Service Concessions Including Private Finance Initiative (PFI) Schemes</b>	<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 £25.3m in 2017/18 for highways maintenance and £6.1m waste disposal. These arrangements gave rise to estimated liabilities at 31 March 2018 of £46.9m for highways maintenance and £7.1m 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. Material Items of Income and Expense

The profitability of the International Port is dependent upon the continued use of the ferry port by two main customers, namely Brittany Ferries and Condor Ferries. Operator agreements are in place with these companies which makes provision for minimum guaranteed levels of income; this offers some degree of protection to the annual stream of income received by the port. Annual turnover of the port amounts to £16.3m.

## 6. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Director of Finance & Information Services (Section 151 Officer) on 31 May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, 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				
2016/17	Adjustments for Capital Purposes (1)	Net Changes for Pension Adjustments (2)	Other Differences (3)	Total Adjustments
	£000	£000	£000	£000
Portfolios:				
Children & Education				
Children's Social Care	0	455	8	463
Education	2,928	1,433	689	5,050
Culture Leisure & Sport	2,133	135	9	2,277
Environment & Community Safety	921	119	(5)	1,035
Governance & Audit	15	20	(2)	33
Health & Social Care	1,155	747	(91)	1,811
Housing	421	56	6	483
Leader	6	3	0	9
Licensing	4	16	2	22
PRED	(736)	131	4	(601)
PRED - Port	2,491	143	8	2,642
Resources	2,562	941	(5)	3,498
Traffic & Transportation	5,657	153	13	5,823
	17,557	4,352	636	22,545
Non-portfolio - HRA	(78,631)	876	1,354	(76,401)
Non-portfolio - Other	(7,459)	(5,047)	(1,882)	(14,388)
<b>Net Cost of Services</b>	<b>(68,533)</b>	<b>181</b>	<b>108</b>	<b>(68,244)</b>
Other Income & Expenditure from the Funding Analysis	(25,594)	10,335	1,173	(14,086)
<b>Difference between GF/HRA (surplus)/deficit and CIES (surplus)/deficit</b>	<b>(94,127)</b>	<b>10,516</b>	<b>1,281</b>	<b>(82,330)</b>



Adjustments from GF/HRA to arrive at CIES amounts				
2017/18	Adjustments for Capital Purposes (1)	Net Changes for Pension Adjustments (2)	Other Differences (3)	Total Adjustments
	£000	£000	£000	£000
Portfolios:				
Children & Families	0	1,284	76	1,360
Culture Leisure & Sport	1,877	410	(17)	2,270
Education	16,721	3,192	(1,299)	18,614
Environment & Community Safety	2,118	283	14	2,415
Governance & Audit & Standards	(54)	52	3	1
Adult Social Care & Public Health	442	1,756	12	2,210
Housing	227	150	(236)	141
Leader	43	6	0	49
Licensing	4	44	(1)	47
Planning, Regeneration & Economic Development	1,919	377	4	2,300
Planning, Regeneration & Economic Development - Port	2,704	385	(38)	3,051
Resources	1,920	2,462	67	4,449
Traffic & Transportation	4,000	455	(8)	4,447
	31,921	10,856	(1,423)	41,354
Non-portfolio - HRA	(22,805)	803	(230)	(22,232)
Non-portfolio - Other	(9,802)	(10,152)	2,393	(17,561)
<b>Net Cost of Services</b>	<b>(686)</b>	<b>1,507</b>	<b>740</b>	<b>1,561</b>
Other Income & Expenditure from the Funding Analysis	(22,646)	8,975	927	(12,744)
<b>Difference between GF/HRA (surplus)/deficit and CIES (surplus)/deficit</b>	<b>(23,332)</b>	<b>10,482</b>	<b>1,667</b>	<b>(11,183)</b>

Note (1) - Adjustments for Capital Purposes:

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices

Note (2) - Net Change for Pensions Adjustments:

This column shows the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the City Council as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure -- the net interest on the defined benefit liability is charged to the CIES.

Note (3) - Other Differences:

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and Non-Domestic Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in CIPFA's Code of Practice on Local Authority Accounting. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund

**(b) Segmental Income**

Income received from external customers on a segmental basis is analysed below:

<b>2016/17</b>		<b>2017/18</b>
<b>Income from Services £'000</b>		<b>Income from Services £'000</b>
	<b>Portfolios:</b>	
(928)	Children and Families	(636)
(7,365)	Education	(6,667)
(3,931)	Culture Leisure & Sport	(3,179)
(2,176)	Environment & Community Safety	(1,613)
(608)	Governance & Audit & Standards	(613)
(20,413)	Adult Social Care & Public Health	(22,723)
(1,452)	Housing	(1,513)
(19)	Leader	(28)
(903)	Licensing	(875)
(14,449)	Planning, Regeneration & Economic Development	(19,247)
(14,853)	Planning, Regeneration & Economic Development - Port	(16,538)
(12,721)	Resources	(13,011)
(10,699)	Traffic & Transportation	(12,001)
(90,517)		(98,644)
(83,168)	Housing Revenue Account	(83,426)
0	Other	(32)
<u>(173,685)</u>		<u>(182,102)</u>

Note - This disclosure shows externally earned income for each portfolio as included in the net expenditure figures in the Expenditure and Funding Analysis. The total will therefore not agree to the entry in the Expenditure and Income Funded by Nature for fees, charges and other income as this represents the IFRS entry as included in the CIES.

## 8. Expenditure and Income Analysed by Nature

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

	Restated 2016/17 £000	2017/18 £000
<b><u>Expenditure</u></b>		
Employee benefits expenses	203,680	186,801
Other services expenses	361,611	340,499
Depreciation, amortisation, impairment, revaluations	(55,513)	2,206
Interest payments	29,343	25,677
Precepts and levies	0	78
Payments to Housing Capital Receipts Pool	1,172	927
Loss on the disposal of assets	4,453	23,579
Investment property expenditure and decreases in fair value	3,549	757
Trading expenses	1,966	2,094
<b>Total expenditure</b>	<b><u>550,261</u></b>	<b><u>582,618</u></b>
<b><u>Income</u></b>		
Fees, charges and other service income	(162,796)	(164,911)
Surplus on associates and joint ventures	(130)	(145)
Interest and investment income	(6,638)	(5,375)
Income from council tax and non-domestic rates	(112,624)	(120,802)
Government grants and contributions	(362,450)	(294,480)
Gain on disposal of assets	0	(2,319)
Investment property income and increases in fair value	(7,546)	(28,693)
Trading income	(3,893)	(5,126)
<b>Total Income</b>	<b><u>(656,077)</u></b>	<b><u>(621,851)</u></b>
<b>Surplus or Deficit on the Provision of Services</b>	<b><u>(105,816)</u></b>	<b><u>(39,233)</u></b>

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.

Note - Support service charges have no longer been shown as a separate line in the above note as they are not mutually exclusive and instead form part of other lines in the note. Support service charges for 2016/17 totalled £19.3m and increased to £24.8m in 2017/18 as a result of increases in capital charges for support services; due primarily to revaluations of assets held by the respective services.

## **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.

2016/17	Usable Reserves				
	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>					
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)	(8,026)	(2,490)			
- 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)	(110,956)	74,003	(19,181)	72,920	(42,448)
- Other Adjustments to Revenue Resources	1,315	(1,367)			
<b>Total Adjustment to Revenue Resources</b>	<b>(117,667)</b>	<b>70,146</b>	<b>(19,181)</b>	<b>72,920</b>	<b>(42,448)</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	83,219			(83,219)	
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,172)			1,172	
Capital grants and contributions unapplied credited to the CIES	29,992	3,029			(33,021)
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	3,674	2,954		887	
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	4,338	3,876			
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>120,051</b>	<b>9,859</b>	<b>0</b>	<b>(81,160)</b>	<b>(33,021)</b>
<b>Adjustments to Capital Resources</b>					
Use of Major Repairs Reserve to finance capital expenditure			19,181		
Application of capital receipts to finance capital expenditure				14,348	
Application of capital grants to finance capital expenditure					66,561
Application of City Deal Grant to finance capital expenditure					
Other adjustments to capital resources	(71)	13		(2,452)	
<b>Total Adjustments to Capital Resources</b>	<b>(71)</b>	<b>13</b>	<b>19,181</b>	<b>11,896</b>	<b>66,561</b>
<b>Total Adjustments</b>	<b>2,313</b>	<b>80,018</b>	<b>0</b>	<b>3,656</b>	<b>(8,908)</b>

2017/18	Usable Reserves				
	General Housing Fund Revenue Balance £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments to the Revenue Resources</b>					
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)	(8,167)	(2,316)			
- 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)	(37,124)	19,030	(19,448)		(12,491)
- Other Adjustments to Revenue Resources	(878)	230			
<b>Total Adjustment to Revenue Resources</b>	<b>(46,169)</b>	<b>16,944</b>	<b>(19,448)</b>	<b>0</b>	<b>(12,491)</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	23	5,833		(5,856)	
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(927)			927	
Capital grants and contributions unapplied credited to the CIES	25,279	134			(25,413)
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	4,568			391	
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	5,236	351			
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>34,179</b>	<b>6,318</b>	<b>0</b>	<b>(4,538)</b>	<b>(25,413)</b>
<b>Adjustments to Capital Resources</b>					
Use of Major Repairs Reserve to finance capital expenditure			17,608		
Application of capital receipts to finance capital expenditure				7,451	
Application of capital grants to finance capital expenditure					38,835
Application of City Deal Grant to finance capital expenditure					
Other adjustments to capital resources	(94)	0		(2,494)	
<b>Total Adjustments to Capital Resources</b>	<b>(94)</b>	<b>0</b>	<b>17,608</b>	<b>4,957</b>	<b>38,835</b>
<b>Total Adjustments</b>	<b>(12,084)</b>	<b>23,262</b>	<b>(1,840)</b>	<b>419</b>	<b>931</b>

## 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 2017/18. The "Other" balance relates to reserves that have in-year transactions or balances less than £7m and are held for a variety of reasons.

	Balance at 1 April 2016 £000	Transfers (to) / from 2016/17 £000	Balance at 31 March 2017 £000	Transfers (to) / from 2017/18 £000	Balance at 31 March 2018 £000
Earmarked for Capital Purposes	(17,826)	(17,226)	(35,052)	(3,717)	(38,769)
Medium Term Resource Strategy Reserve	(16,679)	529	(16,150)	(1,362)	(17,512)
Private Finance Initiative Reserve	(11,437)	763	(10,674)	1,005	(9,669)
City Deal Reserves	(22,775)	(480)	(23,255)	(370)	(23,625)
Highways Maintenance Reserve *	(5,663)	(332)	(5,995)	(1,931)	(7,926)
Investment Reserve	-	-	-	(7,891)	(7,891)
Portfolio Reserves	(5,751)	(2,239)	(7,990)	(1,496)	(9,486)
Other *	(35,303)	2,706	(32,597)	(6,954)	(39,551)
<b>Total</b>	<b>(115,434)</b>	<b>(16,279)</b>	<b>(131,713)</b>	<b>(22,717)</b>	<b>(154,430)</b>

\* The 2016/17 figures have been restated to reflect the Council's preparer materiality of £7m. The Highways Maintenance Reserve has been added as it exceeded £7m at 31 March 2018. The HRA Capital Reserve has been omitted from the restated figures as its balance has not exceeded £7m in either 2016/17 or 2017/18. The Other figure has been restated to take account of including the Highways Maintenance Reserve in the table above and omitting the HRA Capital Reserve from the table.

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

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

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

**City Deal Reserves** - The City Deal capital scheme will take several years to come to fruition but will be largely funded by government grants that were received in 2013/14. This reserve holds funds that will be required to finance the City Deal capital scheme in future years.

**Highways Maintenance Reserve** - This reserve is to fund the ongoing maintenance costs of improvements to the highways network.



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

**Portfolio Reserves** - These reserves provide a mechanism to allow underspending by portfolios in 2017/18 and previous years to be carried forward into 2018/19.

## 11. Notes to the Comprehensive Income & Expenditure Statement

### (a) Other Operating Expenditure

2016/17 £000		2017/18 £000
4,453	(Gain)/Loss on the disposal of Non-Current Assets	21,261
544	Miscellaneous Operating Income and Expenditure	979
<b>4,997</b>		<b>22,240</b>

### (b) Financing & Investment Income and Expenditure

2016/17 £000			2017/18 £000
29,343	Interest payable and similar charges		25,677
(6,638)	Interest & investment income		(5,375)
10,335	Net interest on defined benefit (asset)/liability	41	8,975
(1,927)	(Surplus)/deficit on trading undertakings & other operations		(3,033)
(3,997)	Income, expenditure and changes in the fair value of investment properties	16	(27,935)
<b>27,116</b>			<b>(1,691)</b>

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

2016/17 £000			2017/18 £000
(66,864)	Income from council tax	35	(71,507)
(50,856)	Non Ring Fenced government grants	35	(40,498)
(33,021)	Capital grants & contributions	35	(25,414)
(45,760)	Retained non-domestic rates	35	(49,295)
<b>(196,501)</b>			<b>(186,714)</b>

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

### Movements on Balances: Comparative Movements in 2016/17

	PPE									
	Council Dwellings £000	Other Land and Buildings and Equipment £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Buildings - Surplus £000	Assets Under Construction £000	Total £000	Other Asset Categories £000	Combined Total £000
<b>Cost or Valuation</b>										
At 1st April 2016	557,649	316,456	48,814	207,835	2,416	2,281	60,674	1,196,125	144,116	1,340,241
Additions	422						86,181	86,603	82,532	169,135
Revaluation increases/(decreases) to CIES and/or Revaluation Reserve	56,650	4,274	-	-	-	(196)		60,728	(2,953)	57,775
Disposals	(4,363)	(11,139)	(122)	(133)	-	-		(15,757)	(272)	(16,029)
Reclassifications	23,580	12,128	1,412	11,988	-	5,000	(47,593)	6,515	(6,515)	-
At 31st March 2017	633,938	321,719	50,104	219,690	2,416	7,085	99,262	1,334,214	216,908	1,551,122
<b>Depreciation and Impairment</b>										
At 1st April 2016	(39,565)	(35,259)	(22,600)	(37,977)	399	(300)		(135,302)	(5,468)	(140,770)
Depreciation Charge in Year	(19,181)	(9,405)	(4,617)	(5,178)	(12)	(10)		(38,403)	(724)	(39,127)
Depreciation written out on revaluation	18,210	10,101	-	-	-	19		28,330	0	28,330
Impairment losses/(reversals) to CIES and/or Revaluation Reserve	-	(5,950)	(122)	(133)	-	-		(6,205)	(20)	(6,225)
Disposals	155	916	122	133	-	-		1,326	0	1,326
Reclassifications	-	190	(190)	-	-	-		-	-	-
At 31st March 2017	(40,381)	(39,407)	(27,407)	(43,155)	387	(291)	-	(150,254)	(6,212)	(156,466)
<b>Net Book Value</b>										
At 1st April 2016	518,084	281,197	26,214	169,858	2,815	1,981	60,674	1,060,823	138,648	1,199,471
At 31st March 2017	593,557	282,312	22,697	176,535	2,803	6,794	99,262	1,183,960	210,696	1,394,656

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

**Movements in 2017/18**

	PPE							Other Asset Categories £000	Combined Total £000
	Council Dwellings and Buildings £000	Other Land and Buildings £000	Vehicles, Plant and Infrastructure Equipment £000	Community Assets £000	Other Land & Buildings - Surplus £000	Assets Under Construction £000	Total £000		
<b>Cost or Valuation</b>									
<b>At 1st April 2017</b>	633,938	321,719	50,104	2,416	219,690	2,416	99,262	1,334,214	216,908
Opening adjustment	-	-	-	-	-	-	-	-	475
<b>Revised as at 1st April 2017</b>	<b>633,938</b>	<b>321,719</b>	<b>50,104</b>	<b>2,416</b>	<b>219,690</b>	<b>2,416</b>	<b>99,262</b>	<b>1,334,214</b>	<b>217,383</b>
Additions	1,723	-	10,133	-	-	-	91,751	103,607	0
Revaluation increases/(decreases) to CIES and/or Revaluation Reserve	8,154	(5,489)	(817)	-	-	-	-	(3,154)	28,723
Disposals	(3,630)	(27,406)	-	-	-	-	-	(31,036)	(492)
Reclassifications from Assets Under Construction	31,653	35,326	3,309	-	24,116	-	(95,686)	(1,282)	1,282
Reclassifications between categories	-	(2,495)	1,678	-	1,653	-	-	836	(836)
<b>At 31st March 2018</b>	<b>671,838</b>	<b>321,655</b>	<b>64,407</b>	<b>2,416</b>	<b>245,459</b>	<b>2,416</b>	<b>95,327</b>	<b>1,403,185</b>	<b>246,060</b>
<b>Depreciation and Impairment</b>									
<b>At 1st April 2017</b>	(40,381)	(39,407)	(27,407)	387	(43,155)	-	-	(150,254)	(6,212)
Opening adjustment	-	-	-	-	-	-	-	-	(475)
<b>Revised as at 1st April 2017</b>	<b>(40,381)</b>	<b>(39,407)</b>	<b>(27,407)</b>	<b>387</b>	<b>(43,155)</b>	<b>-</b>	<b>-</b>	<b>(150,254)</b>	<b>(6,687)</b>
Depreciation Charge in Year	(19,448)	(9,421)	(4,460)	(7)	(5,368)	(7)	-	(38,721)	(681)
Depreciation written out on revaluation	19,329	10,335	220	-	-	-	1	29,885	-
Impairment losses/(reversals) to CIES and/or Revaluation Reserve	-	-	-	-	-	-	-	-	-
Disposals	119	3,826	-	-	-	-	-	3,945	494
Reclassifications from Assets Under Construction	-	-	-	-	-	-	-	-	-
Reclassifications between categories	-	961	(714)	-	(6)	-	-	241	(241)
Adjustments *	816	-	-	-	-	-	-	816	-
<b>At 31st March 2018</b>	<b>(39,565)</b>	<b>(33,706)</b>	<b>(32,361)</b>	<b>380</b>	<b>(48,529)</b>	<b>380</b>	<b>(307)</b>	<b>(154,088)</b>	<b>(7,115)</b>
<b>Net Book Value</b>									
<b>At 1st April 2017</b>	593,557	282,312	22,697	2,803	176,535	2,803	99,262	1,183,960	210,696
<b>At 31st March 2018</b>	<b>632,273</b>	<b>287,949</b>	<b>32,046</b>	<b>2,796</b>	<b>196,930</b>	<b>2,796</b>	<b>95,327</b>	<b>1,249,097</b>	<b>238,945</b>

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

# The opening adjustment to other asset categories relates to a 2016/17 audit adjustment which was incorrectly disclosed in the note. Net book value was used in error for investment property gross book value, meaning that both the gross book value and accumulated depreciation/impairment were understated.

\* The Adjustment to Council Dwelling Accumulated Depreciation and Impairment is in respect of depreciation written off on revaluation which should have been included in the 2016/17 disclosure.

Tangible non-current assets have been valued as follows:

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

Where no market evidence is available to establish market value, e.g. for schools, the depreciated replacement cost method of valuation has been used.

A five year rolling programme of revaluations is undertaken for all assets except council dwellings, which are revalued annually. All valuations have been carried out by Royal Institute of Chartered Surveyors (RICS) qualified staff from the City Council's Property and Housing Service in accordance with the practice statements and guidance notes contained in the RICS manual of Appraisal and Valuation 5th Edition 2003 (as amended). The assets are valued as at 31 March 2018.

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 2017/18 £28.3m was reversed against previous impairment losses in the Surplus or Deficit on the Provision of Services (£74.8m in 2016/17).

At 31 March 2018 one school with a net book value of £0.89m had applied to become an Academy in 2018/19.

### 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
2017/18	632,273	107,478	-	-	-	1,719	159,278	-	-	900,748
2016/17	-	59,412	-	-	-	57	1,120	-	-	60,589
2015/16	-	19,324	-	-	-	-	1,699	-	-	21,023
2014/15	-	96,372	-	-	-	-	914	-	-	97,285
2013/14	-	5,364	-	-	-	-	121	-	-	5,485
Valued at Historic Cost	-	-	32,046	196,930	2,796	-	-	-	95,328	327,100
	<b>632,273</b>	<b>287,950</b>	<b>32,046</b>	<b>196,930</b>	<b>2,796</b>	<b>1,776</b>	<b>163,132</b>	<b>-</b>	<b>95,328</b>	<b>1,412,230</b>

#### Depreciation

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

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

#### a) Council Dwellings

Based on useful lives calculated on a componentised basis.

#### b) Buildings

Sixty years unless assessed by the valuer for a lesser period.

#### c) Vehicles, Plant & Machinery

Generally ten years; although less for some assets depending on the nature of use.

#### d) IT Equipment

Five years.

#### e) Infrastructure assets

Forty years except for environmental improvements and enhancements where ten years has been used.

## 14. Significant commitments for future capital expenditure

### a) Future Approved Capital Programme

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

Capital Programme	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Later £000
Children's Social Care	1,650	-	-	-	-	-
Culture, Leisure & Sport	2,945	280	800	1,350	-	-
Education	10,314	4,518	10,681	1,531	272	-
Environment & Community Safety	14,084	13,725	16,875	15,554	16,171	29,116
Health & Social Care (Adults Services)	2,249	1,084	-	-	-	-
Planning, Regeneration & Economic Development	85,330	60,777	46,111	-	-	122
Commercial Port	4,025	4,752	-	-	-	-
Resources	9,253	2,403	1,076	-	-	-
Traffic & Transportation	14,097	4,938	1,502	1,449	-	30,315
Housing Portfolio (HIP)	31,315	24,781	29,198	25,852	26,346	26,852
<b>Total Capital Programme</b>	<b>175,262</b>	<b>117,258</b>	<b>106,243</b>	<b>45,736</b>	<b>42,789</b>	<b>86,405</b>

### b) Contractual Commitments

The City Council was legally committed to the following significant capital contracts at 31 March 2018:

Capital Contracts	£000
Kingsclere Avenue New Build Dwellings	4,578
Dunsbury Utilities and Enabling	2,712
Hampshire Community Bank	2,500
The Vanguard Centre - Alteration, Extension and Refurbishment Work:	2,151
Wilmcote House Refurbishment	1,831
Northern Parade Infants - School Expansion	1,510
Craneswater Junior School - School Expansion	1,156
Berth 4 Linkspan Replacement	830

Note - Only contractual commitments over £0.75m have been included in the above note.

## 15. Heritage Assets

	Heritage Assets 2016-17 £000	Heritage Assets 2017-18 £000
<b>Cost or Valuation as at 1st April</b>	<b>64,220</b>	<b>64,240</b>
Additions / Donations	-	-
Revaluation increases/(decreases) to CIES and/or Revaluation Reserve	-	11,081
Disposals	-	-
Reclassifications	20	1
At 31st March	<u>64,240</u>	<u>75,322</u>
<b>Depreciation and Impairment as at 1st April</b>	<b>(958)</b>	<b>(984)</b>
Depreciation Charge in Year:	(6)	(6)
Depreciation written out on revaluation:	-	-
Impairment losses/(reversals) to CIES and/or Revaluation Reserve	(20)	-
Disposals	-	-
Reclassifications	-	-
At 31st March	<u>(984)</u>	<u>(990)</u>
<b>Net Book Value</b>		
Museum Collections	15,420	15,420
Historic Buildings	30,037	30,031
Archives	11,843	11,843
Others	5,962	5,962
<b>At 1st April</b>	<b><u>63,262</u></b>	<b><u>63,256</u></b>
<b>Net Book Value</b>		
Museum Collections	15,420	15,434
Historic Buildings	30,031	40,802
Archives	11,843	11,843
Others	5,962	6,253
<b>At 31st March</b>	<b><u>63,256</u></b>	<b><u>74,332</u></b>

Note - The presentation of this disclosure note has been changed from previous years.

### **a) Historic Buildings**

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

Eastney Beam Engine house is a high Victorian engine house of 1887.

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

### **b) Museum Collection**

The City Council has six museums, namely the D Day Story, Portsmouth Museum, Southsea Castle, Charles Dickens Birthplace, Eastney Beam Engine House and Cumberland House. The museum collections are valued at £15.4m.

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

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

Southsea Castle was built in 1544. The Castle was part of a series of fortifications constructed by Henry VIII around England's coastline to protect the country from invaders and has many features of interest including a history of the castle, artefacts and displays.

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

Eastney Beam Engine House contains a pair of James Watt beam engines and reciprocal pumps restored to their 1887 condition.

Cumberland House contains displays that introduce the wildlife of the area - past and present - including that of the chalk down land at Portsdown Hill and the bird life of the internationally important wetland, Farlington Marshes. Alongside the natural history displays, there is a glass Butterfly House.



The Collections Development Policy for the City Council's museum collections is available on the City Council's web site.

### c) Archives

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

## 16. Investment Properties

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

<b>Investment Properties</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Net Income from Investment Property	6,951	9,442

The figures above relate to properties classified as investment properties in these financial statements.

There are no restrictions on the City Council's ability to realise the value inherent in its investment property or on the City Council's right to the remittance of income and the proceeds of disposal.

The following table summarises the movement in the fair value of investment properties over the year. Please note that the presentational format of the note has been changed from that used in previous years.

	Restated 2016/17 £000	2017/18 £000
<b>Cost or Valuation</b>		
Balance at 01/04/2017	68,422	146,022
Additions - Purchases	82,532	-
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	1,957	18,495
Disposals	(272)	-
Reclassifications from Investment Property Assets under Construction	-	167
Reclassifications from other asset categories	(6,617)	(836)
<b>Balance at 31/03/2018</b>	<b>146,022</b>	<b>163,848</b>
<b>Depreciation and Impairment</b>		
Balance at 01/04/2017	4,435	(475)
Depreciation Charge in Year	-	-
Depreciation written out on revaluation	-	-
Impairment losses/(reversals) to SDPS and/or Revaluation Reserve	(4,910)	-
Disposals	-	-
Reclassifications	-	(241)
<b>Balance at 31/03/2018</b>	<b>(475)</b>	<b>(716)</b>
<b>Net Book Value at start of year</b>	<b>72,857</b>	<b>145,547</b>
<b>Net Book Value at end of year</b>	<b>145,547</b>	<b>163,132</b>

Note - The presentation of this disclosure note has been changed from previous years.

### Fair Value Hierarchy

Details of the City Council's investment properties valued over £50,000 and information about the fair value hierarchy as at 31 March 2018 are as follows:

Recurring fair value measurements using:	Quoted prices in			Fair value as at 31 March 2018 £000
	active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	
Commercial Properties	-	152,527	-	152,527
Other Investment Properties	-	8,776	-	8,776
<b>Total</b>	<b>-</b>	<b>161,303</b>	<b>-</b>	<b>161,303</b>

## 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 in the year.

## Changes in Valuation Techniques

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

## 17. Financial Instruments

### a) Financial Instrument Balances

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

	Long-Term		Current	
	31 March 2017	31 March 2018	31 March 2017	31 March 2018
	£000	£000	£000	£000
Financial liabilities at amortised cost	(650,789)	(630,352)	(83,262)	(73,025)
Loans & receivables	136,499	73,499	368,508	422,139
Available for sale - equities	6,334	7,584		

The above balances are shown net of impairments. There are no impairments in the City Council's financial instruments apart from current loans and receivables. Impairments to current loans and receivables were £4.1m at 31 March 2018 (£4.9m at 31 March 2017). All outstanding debt is pursued until such time as it becomes uneconomic or disproportionate to the administrative effort required. The City Council only holds collateral in relation to debts arising from commercial tenancies.

**b) Financial Instruments Gains / Losses**

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

	<b>2016/17</b>		
	<b>Financial Liabilities</b>	<b>Financial Assets</b>	<b>Total</b>
	Liabilities Measured at Amortised Cost <b>£000</b>	Loans & Receivables  <b>£000</b>	<b>£000</b>
Interest expense	27,815		27,815
Impairment Losses		(169)	(169)
<b>Interest Payable &amp; Similar Charges</b>	<b>27,815</b>	<b>(169)</b>	<b>27,646</b>
Interest & Investment Income		(6,638)	(6,638)
<b>Net (gain) / loss for the year</b>	<b>27,815</b>	<b>(6,807)</b>	<b>21,008</b>

<b>2017/18</b>			
	<b>Financial Liabilities</b>	<b>Financial Assets</b>	<b>Total</b>
	Liabilities Measured at Amortised Cost	Loans & Receivables	
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Interest expense	25,676		25,676
Impairment Losses		4,102	4,102
<b>Interest Payable &amp; Similar Charges</b>	<b>25,676</b>	<b>4,102</b>	<b>29,778</b>
Interest & Investment Income		(5,375)	(5,375)
<b>Net (gain) / loss for the year</b>	<b>25,676</b>	<b>(1,273)</b>	<b>24,404</b>

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

The City Council had available for sale financial instruments with a fair value of £7.6m at 31 March 2018 (£6.3m at 31 March 2017). These consisted of equity shares in MMD (Shipping Services) Ltd £4.9m (£4.9m at 31 March 2017), Hampshire Community Bank £2.5m (£1.2m at 31 March 2017), and the UK Municipal Bonds Agency Plc £0.2m (£0.2m at 31 March 2017).

### 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 classified as loans and receivables and long-term debtors and creditors and are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows.

Financial Liabilities	31 March 2017		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Borrowing	(572,172)	(808,124)	(565,094)	(788,222)
Service Concessions and Finance Lease	(94,416)	(145,277)	(80,534)	(107,281)
Other Creditors	(67,463)	(67,463)	(57,749)	(57,749)
<b>Total</b>	<b>(734,051)</b>	<b>(1,020,864)</b>	<b>(703,377)</b>	<b>(953,252)</b>

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	31 March 2017		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Investments	437,760	441,020	415,142	418,012
Debtors	67,247	79,220	81,747	99,964
<b>Total</b>	<b>505,007</b>	<b>520,240</b>	<b>496,889</b>	<b>517,976</b>

The fair value and the carrying amount of the City Council's portfolio of investments is broadly similar indicating that the interest rate receivable is broadly the same as the rates available for similar loans at the Balance Sheet date.

**Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value**

	31 March 2017			Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<i>Recurring fair value measurements using:</i>	£000	£000	£000	£000
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
Borrowing	-	(808,124)	-	(808,124)
Service Concessions and Finance Lease Liabilities	-	(145,277)	-	(145,277)
Other creditors	-	(67,463)	-	(67,463)
<b>Total</b>	-	<b>(1,020,864)</b>	-	<b>(1,020,864)</b>
<b>Financial Assets</b>				
<i>Loans and receivables:</i>				
Investments	-	441,020	-	441,020
Debtors	-	79,220	-	79,220
<b>Total</b>	-	<b>520,240</b>	-	<b>520,240</b>

	31 March 2018			Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<i>Recurring fair value measurements using:</i>	£000	£000	£000	£000
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
Borrowing	-	(788,222)	-	(788,222)
Service Concessions and Finance Lease Liabilities	-	(107,281)	-	(107,281)
Other creditors	-	(57,749)	-	(57,749)
<b>Total</b>	<b>-</b>	<b>(953,252)</b>	<b>-</b>	<b>(953,252)</b>
<b>Financial Assets</b>				
<i>Loans and receivables:</i>				
Investments	-	418,012	-	418,012
Debtors	-	99,964	-	99,964
<b>Total</b>	<b>-</b>	<b>517,976</b>	<b>-</b>	<b>517,976</b>

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.

£725.5m of the fair value of borrowing at 31 March 2018 (£741.1m at 31 March 2017) represents loans from the Public Works Loans Board (PWLB). The fair value of PWLB loans of £725.5m 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 £477.8m would be valued at £633.2m. 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 £247.6m for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £725.5m.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions.

<b>Financial Assets</b>	<b>Financial Liabilities</b>
<ul style="list-style-type: none"> <li>- no early repayment or impairment is recognised</li> <li>- estimated ranges of interest rates at 31 March 2018 of 1.00% to 2.57% for loans receivable, based on new lending rates for equivalent loans at that date</li> <li>- the fair value of trade and other receivables is taken to be invested at the billed amount</li> </ul>	<ul style="list-style-type: none"> <li>- no early repayment is recognised</li> <li>- estimated ranges of interest rates at 31 March 2018 of 1.40% to 2.54% for loans payable based on new lending rates for equivalent loans at that date</li> </ul>

## 18. Risks arising from Financial Instruments

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

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

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

### Credit Risk

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

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

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

The City Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed in general, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the City Council's deposits, but there was no evidence at the 31 March 2018 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. Council tax and non-domestic rates are excluded from the table below, as they are not financial instruments. This is because they are statutory debts and do not arise from contracts. In addition the City Council's treasury management investments and finance lease debtors are also excluded as there is no experience of default by these debtors, they are in a financially strong position, and the probability of them defaulting is thought to be extremely low.

	<b>Amount at 31 March 2018 (Net of bad debt provision)</b>	<b>Historical Experience of Default</b>	<b>Historical Experience Adjusted for Market Conditions at 31 March 2018</b>	<b>Estimated Maximum Exposure to Default &amp; Uncollectability at 31 March 2018</b>	<b>Estimated Maximum Exposure to Default &amp; Uncollectability at 31 March 2017</b>
	<b>£000</b>	<b>%</b>	<b>%</b>	<b>£000</b>	<b>£000</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>(A x C)</b>	
Advances to commercial companies	10,233	0.0	6.0	614	212
Customers	39,751	2.0	1.5	596	972
Housing rents	5,944	2.5	2.0	119	245
Housing loans	5,100	0.0	0.1	5	5
				<b>1,334</b>	<b>1,434</b>

The City Council does not generally allow credit for customers. However, there is a balance of £4.9m that is past its due date for payment. This can be analysed by age as follows:

	<b>£000</b>
Less than three months	1,948
Three to six months	572
Six months to one year	735
More than one year	1,672
	<b>4,927</b>

## Liquidity Risk

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

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

A further £71.1m 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 28 years. In real terms the value of the debt will be substantially eroded through the remainder of its term by inflation. The PWLB also allows debt to be rescheduled prior to maturity although this may necessitate paying a premium to the PWLB.

The maturity profile of borrowing excluding accrued interest is as follows:

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£000</b>	<b>£000</b>
Within 1 year	7,977	7,987
Between 1 and 2 years	7,987	7,997
Between 2 and 5 years	24,023	24,053
More than 5 years	527,901	519,873
	<b>567,889</b>	<b>559,911</b>

## **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 2019.
- Borrowings at fixed rates – the fair value of the borrowings will fall.
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- Investments at fixed rates – the fair value of investments will fall. Where fixed rate investments have short maturities, the effect will be similar to that for variable rate investments, as the replacement investments will generate more income to the Comprehensive Income and Expenditure Statement.

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

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

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

According to this assessment strategy, at 31 March 2018, if interest rates had been 0.5% higher with all other variables held constant, the financial effect would be an increase in investment income of £1.2m. The impact of a 0.5% fall in interest rates would have been a reduction in investment income of £1.2m.

## **19. Construction Contracts**

At 31 March 2018 the City Council had no construction contracts in place for third parties.

## 20. Long-term Debtors

2016/17 £000		2017/18 £000
13,226	Finance Lease Debtors	13,162
16,229	Other	15,086
29,455		28,248

## 21. Short-term Debtors

2016/17 £000	Outstanding Debtors at 31st March (Net of Bad Debt Provision)	2017/18 £000	£000
	Central Government Bodies:		
27	Payments in Advance	0	
6,256	Other Debtors	13,051	13,051
	6,283		
	Council Tax:		
11,014	Other Debtors	11,600	
(7,199)	Less Impairment Allowance	(7,754)	3,846
	3,815		
	Housing Rents:		
8,105	Other Debtors	8,609	
(3,207)	Less Impairment Allowance	(2,665)	5,944
	4,898		
	Housing Benefits:		
1,866	Payments in Advance	2,242	
10,232	Other Debtors	9,162	
(4,905)	Less Impairment Allowance	(5,038)	6,366
	7,193		
	Other:		
2,672	Payments in Advance	5,593	
21,447	Other Debtors	25,692	
(3,826)	Less Impairment Allowance	(5,913)	25,372
	20,293		
	<b>42,482</b>		<b>54,579</b>

## 22. Cash and Cash Equivalents

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

31 March 2016	31 March 2017
£000	£000
1,118 Cash held by the Authority	953
(2,523) Bank current accounts	(8,410)
42,840 Investments in money market funds	29,690
<b>41,435</b>	<b>22,233</b>
<b>41,435</b>	<b>22,233</b>

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

## 23. Short-term Creditors

Restated 2016/17	Outstanding Creditors at 31st March		2017/18	
£000	£000		£000	£000
		Central Government Bodies:		
(8,321)		Receipts in Advance	(8,303)	
(15,375)		Other Creditors	(15,189)	
	(23,696)			(23,492)
		Other:		
(14,169)		Receipts in Advance	(14,087)	
(35,740)		Other Creditors	(40,086)	
	(49,909)			(54,173)
	<b>(73,605)</b>			<b>(77,665)</b>
	<b>(73,605)</b>			<b>(77,665)</b>

Note - The above disclosure note's format has been changed in line with our preparer materiality levels. This has resulted in the Local Authority and NHS Bodies lines being combined into the Other line.

## 24. Provisions

	<b>Short Term £000</b>	<b>Long Term £000</b>	<b>Total £000</b>
<b>Balance at 31 March 2016</b>	<b>(1,404)</b>	<b>(8,681)</b>	<b>(10,085)</b>
Additional provisions made in 2016/17	(2,615)	-	(2,615)
Amounts used in 2016/17	675	1,209	1,884
Unused amounts reversed in 2016/17	300	-	300
<b>Balance at 31 March 2017</b>	<b>(3,044)</b>	<b>(7,472)</b>	<b>(10,516)</b>
Additional provisions made in 2017/18	(441)	(416)	(857)
Amounts used in 2017/18	-	6	6
Unused amounts reversed in 2017/18	369	2,252	2,621
<b>Balance at 31 March 2018</b>	<b>(3,116)</b>	<b>(5,630)</b>	<b>(8,746)</b>

Provision for Appeals by Non Domestic Rate Payers - £7.4m

The City Council will retain 49% of the non-domestic rates that it collects. The amount of non-domestic rates collected is affected by appeals against the rateable values of non-domestic properties.

## 25. Other Long-term liabilities

<b>2016/17 £000</b>	<b>2017/18 £000</b>
(13,067) Assets transferred from Hampshire County Council	(13,067)
(1,609) Finance Leases	(877)
(68,463) Service Concessions (including PFIs)	(65,280)
(10,311) Other	(11,379)
<b>(93,450)</b>	<b>(90,603)</b>

## 26. Unusable Reserves

<b>31 March 2017</b>	<b>31 March 2018</b>
<b>£000</b>	<b>£000</b>
(110,376) Revaluation Reserve	(132,143)
(2,739) Available for Sale Financial Instruments Reserve	(2,728)
(777,262) Capital Adjustment Account	(801,191)
5,025 Financial Instruments Adjustment Account	4,713
354,840 Pensions Reserve	385,896
(3,554) Collection Fund Adjustment Account	(1,162)
3,124 Accumulating Compensated Absences Adjustment Account	1,693
(13,432) Deferred Capital Receipts	(13,275)
<b>(544,373) Total Unusable Reserves</b>	<b>(558,197)</b>

### 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.

<b>2016/17</b>	<b>2017/18</b>	
<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>(106,632) Balance at 1 April</b>		<b>(110,376)</b>
(6,354) Revaluations		(23,697)
1,151 Difference between fair value depreciation and historic cost depreciation	1,326	
1,460 Accumulated gains on assets sold or scrapped	604	
2,611 Amount written off the Capital Adjustment Account		1,930
<b>(110,376) Balance at 31 March</b>		<b>(132,143)</b>



### **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.

<b>Capital Adjustment Account</b>			
<b>2016/17</b>		<b>2017/18</b>	
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>(686,386)</b>		<b>(777,262)</b>
			<b>Balance at 1 April</b>
			Reversal of items relating to capital expenditure
(37,867)		24,674	- Charges for depreciation and impairment of non current assets
718		661	- Amortisation of intangible assets
44,761		16,083	- Revenue expenditure funded from capital under statute
13,241		26,487	- (Gain) / loss on disposal
1,916		2,431	Loan Repayments
	22,770		70,336
	(1,151)		(1,328)
	(664,767)		(708,254)
			Net written out amount of the cost of non current
			Capital financing applied in the year:
(14,348)		(7,451)	- Use of Capital Receipts Reserve to finance new capital expenditure
(19,181)		(17,608)	- Use of Major Repairs Reserve to finance new capital expenditure
(66,561)		(38,835)	- Application of grants and contributions to finance new capital expenditure
(7,119)		(4,568)	- Statutory provision for the financing of capital investment charges against the General Fund and HRA balances
(887)		(391)	- Capital receipts set aside for the repayment of debt
(7,399)		(5,587)	- Capital expenditure charged against the General Fund and HRA balances
	(115,495)		(74,440)
			Movements in the market value of investment
			3,000 properties debited or credited to the Comprehensive Income and Expenditure Statement
	<b>(777,262)</b>		<b>(801,191)</b>
			<b>Balance at 31 March</b>

## 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.

<b>2016/17</b>	<b>2017/18</b>
<b>£000</b>	<b>£000</b>
<b>314,306 Balance at 1 April</b>	<b>354,840</b>
(99,146) Return on plan assets	(2,824)
129,164 Actuarial (gains) and losses on pensions assets and liabilities	23,396
32,100 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	31,918
(21,584) Employer's pensions contributions and direct payments to pensioners payable in the year	(21,434)
<b><u>354,840 Balance at 31 March</u></b>	<b><u>385,896</u></b>

## Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the 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.

<b>2016/17</b>	<b>2017/18</b>
<b>£000</b>	<b>£000</b>
<b>(14,040) Balance at 1 April</b>	<b>(13,432)</b>
557 Transfer to Capital Receipts Reserve upon receipt of cash	63
Transfer to Comprehensive Income and Expenditure	
51 Statement to mitigate the effect of leases being reclassified under IFRS	94
<b>(13,432) Balance at 31 March</b>	<b>(13,275)</b>

## 27. Notes to the Cash Flow Statement

### (a) Operating Activities

The cash flows for operating activities include the following items:

<b>2016/17</b>	<b>2017/18</b>
<b>£000</b>	<b>£000</b>
4,053 Interest received	5,055
(28,685) Interest paid	(25,903)

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

<b>2016/17</b>	<b>2017/18</b>
<b>£000</b>	<b>£000</b>
38,409 Depreciation	38,741
(76,276) Impairment and downward valuations	(14,078)
718 Amortisation	661
77 Increase/(decrease) in impairment for bad debts	0
(33,574) Increase/(decrease) in creditors	3,834
(950) (Increase)/decrease in debtors	(14,448)
129 (Increase)/decrease in inventories	(72)
10,515 Movement in pension liability	10,485
23,856 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	27,091
1,274 Other non-cash items charged to the net surplus or deficit on the provision of services	(17,487)
<u>(35,822)</u>	<u>34,727</u>

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

<b>2016/17</b>	<b>2017/18</b>
<b>£000</b>	<b>£000</b>
(12,147) Proceeds from sale of property, plant and equipment, investment property and intangible assets.	(5,856)
(76,032) Any other items for which the cash effects are investing or financing cash flows	(40,399)
<u>(88,179)</u>	<u>(46,255)</u>

## (b) Investing & Financing Activities

2016/17 £000	<b>Investing Activities</b>	2017/18 £000
(167,678)	Purchases of property, plant and equipment, investment property and intangible assets	(94,872)
(1,091,502)	Purchase of short-term and long-term investments	(886,944)
(47)	Other payments for investing activities	(1,621)
10,911	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4,929
1,027,303	Proceeds from short-term and long-term investments	904,987
82,067	Other receipts from investing activities	58,685
<u>(138,946)</u>	<b>Net cash flows from investing activities</b>	<u>(14,836)</u>

2016/17 £000	<b>Financing Activities</b>	2017/18 £000
177,648	Cash receipts of short and long term borrowing	1,180
(3,802)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(4,166)
(16,202)	Repayments of short and long term borrowing	(8,040)
2,117	Other payments for financing activities	(21,045)
<u>159,761</u>	<b>Net cash flows from financing activities</b>	<u>(32,071)</u>

## 28. Agency Services

The City Council has no significant agency arrangements and therefore no significant agency expenditure, except under its statutory responsibilities to collect Council Tax and Business Rates on behalf of the Ministry of Housing, Communities and Local Government, Hampshire Police & Crime Commissioner and Hampshire Fire & Rescue Authority.

## 29. Pooled Budgets and Joint Arrangements

The City Council is currently involved in three pooled budget type arrangements with Portsmouth Clinical Commissioning Group (CCG).

### (a) 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 and subsequently extended from April 2016 to March 2018. The purpose of the arrangement is to commission a range of health and social care services for vulnerable people.

	2016/17		2017/18	
	£000	£000	£000	£000
Gross Income				
Portsmouth City Council	(288)		(324)	
Portsmouth CCG	(278)		(333)	
		(566)		(657)
Expenditure		495		613
<b>(Surplus)/Deficit*</b>		<b>(71)</b>		<b>(44)</b>
Council's share of the surplus		(36)		(22)

\* Note - The surplus has been carried forward in accordance with the section 75 agreement.

Note 2 - The Integrated Commissioning Unit was renamed to Health & Care Portsmouth Commissioning from April 2018.

### (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.

	2016/17		2017/18	
	£000	£000	£000	£000
Gross Income				
Portsmouth City Council	(34,829)		(38,639)	
Portsmouth CCG	(15,481)		(16,707)	
		(50,310)		(55,346)
Expenditure		50,025		55,346
<b>(Surplus)/Deficit*</b>		<b>(285)</b>		<b>-</b>
Council's share of the surplus		-		-

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

**(c) Better Care Fund**

The City Council is party to an arrangement with Portsmouth City CCG under a section 75 agreement effective from 1 April 2015 to support the Better Care programme. The purpose of this arrangement is to drive closer integration, and improve outcomes for patients, service users and carers, in the delivery of health and social care services. The arrangement covers multiple Better Care funds none of which have been assessed as fully meeting the requirements of IFRS 11, to be accounted for as joint arrangements. Instead, those funds hosted by the City Council have been accounted for gross in the City Council's financial statements under lead commissioning arrangements. Those funds hosted by the CCG involve no contribution from the City Council, so no entries have been reflected in the City Council's financial statements however information on this has been included for completeness.

(i) The tables below summarises the contributions and associated expenditure involved in the funds hosted by the City Council, split between revenue and capital income and expenditure:

<b>Revenue Transactions</b>	<b>2016/17</b>		<b>2017/18</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Gross Income				
Portsmouth City Council	(951)		(6,863)	
Portsmouth CCG	(7,137)		(7,008)	
		(8,088)		(13,871)
Expenditure		7,895		13,861
<b>(Surplus)/Deficit*</b>		<b>(193)</b>		<b>(10)</b>
Council's share of the surplus		(15)		-

<b>Capital Transactions</b>	<b>2016/17</b>		<b>2017/18</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Gross Income				
Portsmouth City Council	(1,404)		(1,543)	
Portsmouth CCG	-		-	
		(1,404)		(1,543)
Expenditure		653		1,000
<b>(Surplus)/Deficit*</b>		<b>(751)</b>		<b>(543)</b>
Council's share of the surplus		(751)		(543)

\* Note - The surplus has been carried forward in agreement with the CCG.



(ii) The table below summarises the income and expenditure involved in the funds hosted by the CCG:

	2016/17		2017/18	
	£000	£000	£000	£000
Gross Income				
Portsmouth City Council	-		-	
Portsmouth CCG	(7,163)		(11,356)	
		(7,163)		(11,356)
Expenditure		7,163		11,356
<b>(Surplus)/Deficit</b>		<b>-</b>		<b>-</b>
Council's share of the surplus		-		-

### 30. Members' allowances

The total amount of members' allowances paid in 2017/18 was £0.6m (£0.6m in 2016/17). Detailed information on members' allowances is available from the Director of Finance & Information Services (Section 151 Officer), Civic Offices, Guildhall Square, Portsmouth, PO1 2AR.

### 31. 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.

<b>2016/17</b>		<b>2017/18</b>
<b>Number of employees</b>		<b>Number of employees</b>
66	£50,000 to £54,999	60
36	£55,000 to £59,999	30
47	£60,000 to £64,999	45
20	£65,000 to £69,999	18
14	£70,000 to £74,999	7
9	£75,000 to £79,999	6
6	£80,000 to £84,999	2
2	£85,000 to £89,999	4
0	£90,000 to £94,999	1
1	£95,000 to £99,999	1
1	£100,000 to £104,999	0
0	£105,000 to £109,999	0
2	£110,000 to £114,999	2
1	£115,000 to £119,999	0
2	£120,000 to £124,999	3
0	£125,000 to £129,999	1
0	£130,000 to £134,999	0
0	£135,000 to £139,999	0
0	£140,000 to £144,999	0
0	£145,000 to £149,999	0
0	£150,000 to £154,999	0
0	£155,000 to £159,999	0
0	£160,000 to £164,999	0
1	£165,000 to £169,999	0
0	£170,000 to £174,999	0
0	£175,000 to £179,999	0
0	£180,000 to £184,999	1
<u>208</u>		<u>181</u>

b) Senior Officer Emoluments

The following tables set out the remuneration paid to Senior Officers; whose salary in 2016/17 and 2017/18 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.

2016/17	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)	165,374	0	165,374	21,664	187,038
Deputy Chief Executive and City Solicitor (Monitoring Officer) (Note 1)	118,524	0	118,524	15,527	134,051
Director of Adult Social Care	This post is shared with Portsmouth Clinical Commissioning Group (CCG), with Portsmouth City Council being responsible for 50% of the employee's costs. For 2016/17 this cost was £70,000 (including salary and pension costs).				
Director of Children Services & Education	121,200	0	121,200	15,877	137,077
Director of Finance & Information Services (s151 Officer) (Note 1 & 2)	113,456	0	113,456	14,863	128,319
Director of Public Health (Statutory Role) (to July 2016)	30,008	40,601	70,609	3,931	74,540
Director of Public Health (Statutory Role) (Interim)	53,967	0	53,967	7,560	61,527
Director of Public Health (Statutory Role) (from January 2017)	This post is shared with Southampton City Council, with Portsmouth City Council being responsible for 50% of the employee's costs. For 2016/17 this cost was £43,960 (including salary and pension costs).				
Port Manager (until November 2016)	69,633	0	69,633	0	69,633
Port Manager (from December 2016)	39,151	0	39,151	5,129	44,280
Director of Regulatory Services, Community Safety & Troubled Families	82,826	0	82,826	10,850	93,676
Solent Local Enterprise Partnership Chief Executive	121,275	0	121,275	15,877	137,152
Director of Community & Communications	85,076	0	85,076	11,145	96,221
Director of Culture & City Development	82,826	0	82,826	10,850	93,676
Director of Human Resources, Legal & Procurement	82,826	0	82,826	10,850	93,676
Director of Property & Housing (Note 1)	100,277	0	100,277	13,136	113,413
Director of Transport, Environment & Business Support	82,826	0	82,826	10,850	93,676

**Note 1:** From October 2016, the City Council entered into a shared management arrangement with Gosport Borough Council. This arrangement involves sharing four of the City Council's senior officers with Gosport Borough Council, for which the City Council receives payment and the individual's received additional honorariums reflecting the increase in their responsibilities.

**Note 2:** From April 2016, the Director of Finance & Information Services took on the additional responsibility of providing Chief Finance Officer and Section 151 Officer services to the Isle of Wight Council. He continues to be formally employed by the City Council, with the Isle of Wight Council paying for this service.

2017/18	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)	181,878	0	181,878	25,645	207,523
Deputy Chief Executive and City Solicitor (Monitoring Officer) (Note 1)	127,629	0	127,629	17,996	145,625
Director of Adult Social Care	This post is shared with Portsmouth Clinical Commissioning Group (CCG), with Portsmouth City Council being responsible for 50% of the employee's costs. For 2017/18 this cost was £70,000 (including salary and pension costs).				
Director of Children Services & Education	122,411	0	122,411	17,260	139,671
Director of Finance & Information Services (s151 Officer) (Note 1 & 2)	121,629	0	121,629	17,150	138,779
Director of Public Health (Statutory Role)	This post is shared with Southampton City Council, with Portsmouth City Council being responsible for 50% of the employee's costs. For 2017/18 this cost was £65,346 (including salary and pension costs).				
Port Manager	111,348	0	111,348	15,699	127,047
Solent Local Enterprise Partnership Chief Executive	122,411	0	122,411	17,260	139,671
Director of Community & Communications	87,329	0	87,329	12,500	99,829
Director of Culture & City Development	85,502	0	85,502	12,077	97,579
Director of Human Resources, Legal & Procurement	83,654	0	83,654	11,795	95,449
Director of Property & Housing (Note 1)	24,400	86,624	111,024	3,440	114,464
Director of Housing & Property (from July 2017) (Note 1)	90,419	0	90,419	13,030	103,449
Director of Transport, Environment & Business Support (until September 2017)	41,503	104,329	145,832	5,898	151,730
Director of Regeneration (from October 2017)	66,229	0	66,229	8,415	74,644

**Note 1:** From October 2016, the City Council entered into a shared management arrangement with Gosport Borough Council. This arrangement involves sharing four of the City Council's senior officers with Gosport Borough Council, for which the City Council receives payment and the individual's received additional honorariums reflecting the increase in their responsibilities.

**Note 2:** From April 2016, the Director of Finance & Information Services took on the additional responsibility of providing Chief Finance Officer and Section 151 Officer services to the Isle of Wight Council. He continues 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 2017/18, 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 (£)	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£0-£20,000	38	38	83	45	121	83	£909,046
£20,001 - £40,000	4	2	20	6	24	8	£701,042	£215,508
£40,001 - £60,000	2	0	8	3	10	3	£457,372	£144,407
£60,001 - £80,000	0	1	0	1	0	2	£0	£141,227
£80,001 - £100,000	1	0	6	1	7	1	£630,037	£84,619
£100,001 - £150,000	1	0	1	4	2	4	£260,058	£461,423
£150,001 - £200,000	0	0	0	0	0	0	£0	£0
<b>Total</b>	<b>46</b>	<b>41</b>	<b>118</b>	<b>60</b>	<b>164</b>	<b>101</b>	<b>£2,957,555</b>	<b>£1,562,061</b>

The total cost of £1,562,061 in the table above is included in the City Council's Comprehensive Income and Expenditure Statement for 2017/18.

## 32. External Audit Costs

This note discloses the fees paid to our appointed auditors EY (Ernst and Young LLP) for work carried out in 2017/18.

2016/17 £000	2017/18 £000
149 External Audit Services	149
17 Certification of grant claims & returns	18
0 Statutory inspection	0
0 Other	0
<b>166 Total paid to EY</b>	<b>167</b>

No other non-statutory services were provided by EY.

### 33. 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:

	2016/17			2017/18		
	Central Exp £000	Schools Budget £000	Total £000	Central Exp £000	Schools Budget £000	Total £000
Final DSG for current year before academy recoupment	3,229	133,148	136,377	3,458	137,553	141,011
Academy figure recouped for current year		(45,954)	(45,954)	-	(62,883)	(62,883)
<b>Total DSG after Academy recoupment for current year</b>	<b>3,229</b>	<b>87,194</b>	<b>90,423</b>	<b>3,458</b>	<b>74,670</b>	<b>78,128</b>
Brought forward from prior year	5,048		5,048	3,234	(22)	3,212
Carry forward to next year agreed in advance			-	-	-	-
<b>Agreed initial budgeted distribution in current year</b>	<b>8,277</b>	<b>87,194</b>	<b>95,471</b>	<b>6,692</b>	<b>74,648</b>	<b>81,340</b>
In year adjustments		221	221	-	(151)	(151)
<b>Final budget distribution for current year</b>	<b>8,277</b>	<b>87,415</b>	<b>95,692</b>	<b>6,692</b>	<b>74,497</b>	<b>81,189</b>
Less actual central expenditure	(5,043)		(5,043)	(3,631)	-	(3,631)
Less Actual ISB deployed to schools		(87,437)	(87,437)	-	(72,871)	(72,871)
Plus Local authority contribution for current year			-	-	-	-
<b>Carry forward to next year</b>	<b>3,234</b>	<b>(22)</b>	<b>3,212</b>	<b>3,061</b>	<b>1,626</b>	<b>4,687</b>

### 34. Skills for Care

The City Council receives funding from Skills for Care as a contribution toward recruiting and developing social workers. This funding is ring fenced and can only be used for the purposes outlined by Skills for Care. The grant requires that disclosure is made in the City Council's financial statements of the amounts received and spent.

	2016/17 £000	2017/18 £000
Income brought forward from previous year	(6)	(6)
Income received for Skills for Care in year	(4)	(4)
<b>Total income received</b>	<b>(10)</b>	<b>(10)</b>
Expenditure in year	4	4
Income carried forward to 2017/18	(6)	(6)
Included in Receipts in Advance	(6)	(6)

### 35. Taxation and Grant Income

The City Council credited the following tax, grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
<b>Credited to Services</b>		
Rent Allowance Subsidy	(60,339)	(57,106)
HRA Rent Rebates Subsidy	(44,434)	(43,723)
Public Health Grant	(18,574)	(18,187)
Dedicated Schools Grant	(92,479)	(76,502)
Other grants	(18,974)	(20,488)
	<u>(234,800)</u>	<u>(216,006)</u>
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	(30,363)	(22,313)
Retained Non Domestic Rates (NDR)	(41,192)	(42,802)
NNDR Top Up Grant	(4,568)	(6,493)
PFI Grant	(11,521)	(11,521)
Other Grants	(8,974)	(6,664)
Income from Council Tax	(66,864)	(71,507)
Capital Grants and Contributions	(33,021)	(25,414)
	<u>(196,503)</u>	<u>(186,714)</u>

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

	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
<b>Capital Grants Receipts in Advance</b>		
Government Grants	(13,102)	(28,932)
Other Grants & Contributions	(3,033)	(3,251)
	<u>(16,135)</u>	<u>(32,183)</u>

Revenue grants receipts in advance for 2017/18 were £8.2m (2016/17 £8.3m).



## **36. Related parties**

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

### **Central Government**

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

### **Members**

Members of the City Council have direct control over the City Council's financial and operating policies. The City Council paid £2.2m to organisations where members had been appointed by the City Council to hold positions on the governing body.

During 2017/18 £31,175 was paid to companies in which members had an interest consisting of £20,630 paid to the Beneficial Foundation for training services, £4,485 paid to J J Fleming Business Services, and £6,060 paid to Unloc Learning Limited for schools youth forums.

Details of these interests are available for inspection, by appointment, by contacting the Deputy Chief Executive and City Solicitor on 023 9283 4123.

### **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 20 maintained schools. Non-current assets with a net book value of £35.4m 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. No transactions have been disclosed.

## Other public bodies

The City Council appoints two members to the Portchester Crematorium Joint Committee, has 25% of the voting rights on the Joint Committee and receives 25% of the dividends. The other three investors are Fareham, Havant and Gosport Borough councils. The City Council received a dividend of £145,000 in 2017/18 (£130,000 in 2016/17).

During the year, the Treasury Manager lent £2.5m of City Council funds to the Isle of Wight Council and £3.0m to Gosport Borough Council. The Director of Finance and Information Technology is also the Section 151 Officer for the Isle of Wight Council and Gosport Borough Council as well as Portsmouth City Council. During the year, the Treasury Manager lent City Council funds to several other local authorities.

The following amounts were paid to other related public sector bodies:

	£
Portsmouth Hospitals NHS Trust	854,893
Gosport Borough Council	9,040
Isle of Wight Council	91,174
NHS Portsmouth Clinical Commissioning Group	1,591,963
Southampton City Council	326,227

## Joint working arrangements

In 2016/17 the City Council entered into the following joint working agreements:

- A shared Public Health Director with Southampton City Council
- A shared Director of Adult Services with Portsmouth Clinical Commissioning Group

The City Council has also entered into an arrangement with the Isle of Wight Council for a shared Chief Financial Officer and Section 151 Officer.

These directors will influence spending decisions at each authority however governance arrangements and their independent, professional status ensure the relationships are not compromised.

Also in 2016/17, shared senior management support was agreed between the City Council and Gosport Borough Council. The arrangement included the sharing of the Chief Executive, Deputy Chief Executive and Director of Finance roles from 1 October 2016 in addition to the sharing of a number of third tier roles.

## Entities Controlled or Significantly Influenced by the City Council

Portsmouth City Council trades extensively with its subsidiary MMD. Details of the relationship between the City Council and its subsidiary are provided in note 37.

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.

### 37. Other Companies

#### MMD (Shipping Services) Limited

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

The Council invested a further £4.1m in MMD in 2017/18.

The City Council owns 100% of the shares in MMD which are carried in the City Council's balance sheet under long term investments at their net worth of £4.9m.

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

Seven loans with an outstanding balance of £5.9m have been advanced to MMD by the City Council. These loans carry interest between 3.31% and 4.81% per annum and mature by 2033.

The City Council's exposure to losses arising from its ownership of MMD is limited to £11.4m, i.e. the value of its shares in the company, the funds lodged with Lloyds Bank and the outstanding capital loans advanced to MMD.

The City Council generated £2.5m of income from MMD during 2017/18 (£2.5m in 2016/17); primarily from lease rentals and harbour dues.

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

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

2016/17	2017/18
£000	£000
15,299 Gross Expenditure	17,063
(15,512) Gross Income	(17,063)
<b>(213) Net (Income) / Loss</b>	<b>0</b>

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

### **Hampshire Community Bank Holding Limited**

Following detailed due diligence Portsmouth City Council have entered into a share application and subscription agreement for £5m of ordinary shares in HCB Holding Limited, a company holding all the shares in respect of Hampshire Community Bank Limited. Member voting rights in HCB Holding Limited are as follows:

- 50% shareholders in HCB Holding Limited, each shareholder having one vote
- 50% HCB Foundation Limited

HCB Foundation Limited is a Company Limited by Guarantee without share capital which has a charitable constitution. The share application and subscription agreement requires take up and payment for the £5m of ordinary shares in four instalments. The first two instalments amounting to £2.5m have been paid. Payment of the remaining two instalments is conditional on further due diligence reports confirming progress towards obtaining regulatory approval for Hampshire Community Bank Limited to begin commercial banking activities.

### **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, as an aggregator for financing from institutions such as the European Investment Bank 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.

### 38. Capital expenditure and capital financing

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
428,001	<b>Opening capital financing requirement</b>	526,938
169,167	Long Term Assets	106,288
44,761	Revenue expenditure funded from capital under statute	16,083
<b>213,928</b>	<b>Capital Investment</b>	<b>122,371</b>
<b>641,929</b>	<b>Sources of finance</b>	<b>649,309</b>
(14,348)	Capital receipts (including capital receipts set aside to repay debt)	(7,842)
(66,561)	Other Grants & contributions	(38,824)
	Sums set aside from revenue:	
(8,214)	- Direct revenue contributions	(5,587)
(18,365)	- Use of Major Repairs Reserve	(17,608)
(7,119)	- Minimum Revenue Provision	(4,568)
(384)	Other Adjustments	(34)
<b>(114,991)</b>		<b>(74,463)</b>
<b>526,938</b>	<b>Closing capital financing requirement</b>	<b>574,846</b>
	The capital financing requirement is met by the following items in the balance sheet:	
1,400,990	Fixed assets including equity investments	1,495,626
6,125	Advances by Local Enterprise Partnership (LEP)	4,400
(110,376)	Revaluation Reserve	(132,141)
(777,262)	Capital Adjustment Account	(801,191)
7,461	Other (including Housing General Fund mortgages and advances to subsidiaries)	8,152
<b>526,938</b>		<b>574,846</b>

The capital financing requirement increased by £47.9m in 2017/18 for the following reasons:

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
106,137	Increase in underlying need to borrow	52,958
(7,514)	Provision for the repayment of debt	(4,959)
314	Other	(65)
<b>98,937</b>	<b>(Decrease) / Increase in Capital Financing Requirement</b>	<b>47,934</b>

### 39. Leases

#### City Council as Lessee

##### Finance Leases

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

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

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£000</b>	<b>£000</b>
Other Land & Buildings	2,006	2,074
Investment	42,867	48,305
Vehicles, Plant & Equipment	2,512	2,275
	<b>47,385</b>	<b>52,654</b>

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 net present value of the minimum lease payments is made up of the following amounts:

	<b>31 March</b>	<b>31 March</b>
	<b>2017</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Finance lease liabilities (net present value of minimum lease payments):		
Current	841	195
Non current	5,770	5,777
	<b>6,611</b>	<b>5,972</b>

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

	<b>Minimum Lease Payments</b>		<b>Finance Lease Liabilities</b>	
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
No later than one year	841	195	651	6
Later than one year and not more than 5 years	763	756	8	2
Later than five years	11,802	11,613	928	869
	<b>13,404</b>	<b>12,564</b>	<b>1,587</b>	<b>877</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 and 2017/18 no contingent rents were payable by the City Council.

The City Council has sub-let some of the industrial accommodation held under these finance leases. At 31 March 2018 the minimum payments expected to be received under non-cancellable sub-leases was £0.4m (£0.4m at 31 March 2017).

#### Operating Leases

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

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

	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>
Not more than one year	2,025	1,144
Later than one year but not later than five years	6,278	2,894
Later than five years	69,839	115,422
	<b>78,144</b>	<b>119,460</b>

Contingent rents may be payable on the previous gas works land at the continental ferry port. The rents payable under operating leases are therefore:

	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>
Minimum lease payments	78,144	119,460
Contingent rents	6,600	7,266
	<b>84,743</b>	<b>126,726</b>

### City Council as Lessor

#### Finance Leases

The City Council has leased out property at 407 Middle Park Way, the Healthy Living Centre, 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:



	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>
Finance lease debtor (net present value of minimum lease payments):		
Current	1,292	1,292
Non current	16,175	15,900
Unguaranteed residual value of property	103	103
<b>Gross investment in lease</b>	<b>17,570</b>	<b>17,295</b>

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

	<b>Gross Investment in the Lease</b>		<b>Minimum Lease Payments</b>	
	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>
	Not later than one year	203	214	1,371
Later than one year and not later than five years	958	967	5,505	5,458
Later than five years	12,223	11,734	40,486	39,163
	<b>13,384</b>	<b>12,915</b>	<b>47,362</b>	<b>45,992</b>

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 2016/17 or 2017/18.

## 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:

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	12,779	13,596
Later than one year and not later than five years	45,573	47,922
Later than five years	257,421	255,596
	<b>315,774</b>	<b>317,114</b>

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 2016/17 and 2017/18 no contingent rents were receivable by the City Council.

## 40. 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

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

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

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

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

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

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

	<b>Miltoncross Secondary School £000</b>	<b>Learning Disability Facilities £000</b>	<b>Highways Maintenance £000</b>	<b>Waste Disposal £000</b>	<b>Total £000</b>
<b>Cost or Valuation</b>					
At 1st April 2016	26	6,468	134,217	14,015	154,726
Additions	-	-	-	-	-
Revaluation increases/(decreases) to CIES and/or Revaluation Reserve	-	-	-	-	-
Disposals	-	-	-	-	-
Reclassifications	-	-	2,877	-	2,877
At 1st April 2017	26	6,468	137,094	14,015	157,603
Additions	-	-	-	-	-
Revaluation increases/(decreases) to CIES and/or Revaluation Reserve	-	(189)	-	-	(189)
Disposals	-	-	-	-	-
Reclassifications	-	-	1,884	-	1,884
	-	-	-	-	-
At 31st March 2018	26	6,279	138,978	14,015	159,298
<b>Depreciation and Impairment</b>					
At 1st April 2016	(26)	(238)	(22,828)	(3,333)	(26,425)
Depreciation Charge in Year	-	(171)	(3,065)	(700)	(3,936)
Depreciation written out on revaluation	-	-	-	-	-
Impairment losses/(reversals) to CIES and/or Revaluation Reserve	-	-	-	-	-
Disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
At 1st April 2017	(26)	(409)	(25,893)	(4,033)	(30,361)
Depreciation Charge in Year	-	(171)	(3,224)	(700)	(4,095)
Depreciation written out on revaluation	-	271	-	-	271
Impairment losses/(reversals) to CIES and/or Revaluation Reserve	-	-	-	-	-
Disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
	-	-	-	-	-
At 31st March 2018	(26)	(309)	(29,117)	(4,733)	(34,185)
<b>Net Book Value</b>					
<b>At 1st April 2016</b>	<b>-</b>	<b>6,230</b>	<b>111,389</b>	<b>10,682</b>	<b>128,301</b>
<b>At 1st April 2017</b>	<b>-</b>	<b>6,059</b>	<b>111,201</b>	<b>9,982</b>	<b>127,242</b>
<b>At 31st March 2018</b>	<b>-</b>	<b>5,970</b>	<b>109,861</b>	<b>9,282</b>	<b>125,113</b>

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

	<b>Liability as at 31 March 2017</b>	<b>Payments</b>	<b>Liability as at 31 March 2018</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Milton Cross School	(10,980)	279	(10,701)
Learning Disability Facilities	(3,855)	99	(3,756)
Highways Maintenance	(49,200)	2,283	(46,917)
Waste Disposal	(7,946)	856	(7,090)
<b>Total</b>	<b>(71,980)</b>	<b>3,516</b>	<b>(68,464)</b>

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

	<b>Repayments of Liability</b>	<b>Interest</b>	<b>Service Charges</b>	<b>Total Revenue Commitment</b>	<b>Life Cycle Replacement Costs</b>	<b>Total Commitment</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Within 1 year	3,183	6,364	20,742	30,289	3,435	33,724
Within 2 to 5 years	20,117	21,510	89,879	131,506	8,978	140,484
Within 6 to 10	23,349	17,001	104,026	144,376	24,152	168,528
Within 11 to 15	21,696	3,757	41,586	67,039	3,201	70,240
Within 16 to 20	118	2	-	120	-	120
	<b>68,463</b>	<b>48,634</b>	<b>256,233</b>	<b>373,330</b>	<b>39,766</b>	<b>413,096</b>

## 41. Liability Relating to Defined Benefit Pension Scheme

### Participation in Pension Schemes

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

The City Council participates in the following pension schemes:

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

The funded nature of the LGPS requires the City Council and employees to pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The scheme is operated under the regulatory framework for the LGPS, and the governance of the scheme is the responsibility of the scheme's Joint Panel and Board including the management and investment of the fund as well as compliance with appropriate legislation and regulations.

The principal risks to the City Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

**Discretionary post-retirement benefits upon early retirement** - These are unfunded benefit arrangements, under which liabilities are recognised when awards are made. No investment assets are built up to meet these pension liabilities, so cash has to be generated to meet actual pension payments as they fall due.

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

**The Teachers' Pension Fund** - This is an unfunded defined benefit scheme, for teaching staff, which is administered by the Department for Education. Unlike the other pension schemes above, this has been accounted for as a defined contribution scheme - details of this fund are disclosed in Note 42.

**The NHS Pensions Scheme** - This is an unfunded defined benefit scheme, for NHS staff, which is administered by NHS Business Services Authority. Similar to the Teacher's Pension Fund, this has been accounted for as a defined contribution scheme - details of this fund are disclosed in Note 42.

### **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:

	2016/17 £000	2017/18 £000
<b>Comprehensive Income and Expenditure Statement:</b>		
<b>Cost of services</b>		
Current service cost	20,367	26,343
Past service cost	1,398	500
Settlements/Curtailments #	-	(3,900)
<b>Financing and Investment Income and Expenditure</b>		
Net Interest Expense	10,335	8,975
<b>Total Post Employment Benefit charged to the Surplus of deficit on the Provision of services</b>	32,100	31,918
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Return on plan assets in (excess) / below that recognised in net interest	(99,146)	(2,824)
Actuarial (gains) / losses due to changes in financial assumptions	177,637	17,709
Actuarial (gains) / losses due to changes in demographic assumptions	(10,380)	(148)
Actuarial (gains) / losses due to liability experience	(38,093)	5,835
Total (gains) / losses from reclassification	-	-
	30,018	20,572
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	62,118	52,490
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the surplus or deficit for the Provision of Services for post employment benefits in accordance with the Code	32,100	31,918
<b>Actual amount charged against the General Fund and HRA Balances for pensions in the year:</b>		
Employers' contributions payable to scheme	20,103	20,006
Retirement benefits payable to pensioners	1,482	1,427
	21,585	21,433

# - The settlement is in respect of a number of schools converting to academy status and therefore leaving the control of the City Council. This has resulted in a transfer of pension assets and liabilities to the respective new academies and a corresponding reduction in the City Council's pension assets and liabilities.



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 2018 is a loss of £159.6m (2016/17 £141.6m).

### 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:

	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Present value of funded liabilities (LGPS):	(1,020,161)	(1,064,421)
Present value of funded liabilities (Pilot Pension Scheme)	(4,030)	(3,812)
Present value of unfunded liabilities (LGPS and Teachers):	(19,498)	(18,911)
Fair value of assets (LGPS):	685,670	698,147
Fair value of assets (Pilot Pension Scheme)	3,011	2,932
<b>Surplus/(deficit) in the scheme:*</b>	<u>(355,008)</u>	<u>(386,065)</u>

\* - The figures shown in the note above are based on information from the respective actuaries. The net liability shown in this note differs from the amount shown in the balance sheet, as the entries in the revenue account and balance sheet have had the actuary's estimated employers contributions figure replaced by the actual figure. The difference is not material (£0.2m), especially as all the IAS19 figures are estimates.

The liabilities show the underlying commitments that the City Council has in the long term to pay post-employment (retirement) benefits. The total liability of £386m 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 mean that the financial position of the City Council remains healthy. The deficit on the LGPS will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary (AON Hewitt Limited).

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

<b>2016/17</b>	<b>Funded Liabilities</b>	<b>Funded Liabilities</b>	<b>Unfunded Liabilities</b>	<b>Unfunded Liabilities</b>	<b>Total</b>
	<b>LGPS</b>	<b>Pilot Pension Scheme</b>	<b>LGPS</b>	<b>Teachers' Additional Benefits</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	(861,771)	(3,744)	(12,005)	(7,695)	(885,215)
Current service cost	(20,350)	(17)	-	-	(20,367)
Interest Expense	(28,960)	(111)	(400)	(250)	(29,721)
Contributions by scheme participants	(5,890)	(2)	-	-	(5,892)
Actuarial gains and (losses) - Financial Assumptions	(175,840)	(377)	(890)	(530)	(177,637)
Actuarial gains and (losses) - Demographic Assumptions	9,840	-	320	220	10,380
Actuarial gains and (losses) - Liability Experience	37,870	(27)	140	110	38,093
Benefits paid	26,340	246	889	593	28,068
Past service costs including curtailments	(1,400)	2	-	-	(1,398)
Net Increase in assets from reclassification	-	-	-	-	-
Settlements	-	-	-	-	-
Closing balance at 31 March	<u>(1,020,161)</u>	<u>(4,030)</u>	<u>(11,946)</u>	<u>(7,552)</u>	<u>(1,043,689)</u>

<b>2017/18</b>	<b>Funded Liabilities</b>	<b>Funded Liabilities</b>	<b>Unfunded Liabilities</b>	<b>Unfunded Liabilities</b>	<b>Total</b>
	<b>LGPS</b>	<b>Pilot Pension Scheme</b>	<b>LGPS</b>	<b>Teachers' Additional Benefits</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	(1,020,161)	(4,030)	(11,946)	(7,552)	(1,043,689)
Current service cost	(26,310)	(33)	-	-	(26,343)
Interest Expense	(26,240)	(93)	(300)	(190)	(26,823)
Contributions by scheme participants	(5,740)	(5)	-	-	(5,745)
Actuarial gains and (losses) - Financial Assumptions	(17,600)	61	(100)	(70)	(17,709)
Actuarial gains and (losses) - Demographic Assumptions	-	148	-	-	148
Actuarial gains and (losses) - Liability Experience	(5,560)	(95)	(110)	(70)	(5,835)
Benefits paid	28,320	235	856	571	29,982
Past service costs including curtailments	(500)	-	-	-	(500)
Net Increase in assets from reclassification	-	-	-	-	-
Settlements	9,370	-	-	-	9,370
Closing balance at 31 March	<u>(1,064,421)</u>	<u>(3,812)</u>	<u>(11,600)</u>	<u>(7,311)</u>	<u>(1,087,144)</u>

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

<b>2016/17</b>	<b>LGPS</b>	<b>Pilot Pension Scheme</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	567,794	2,946	570,740
Interest Income	19,300	86	19,386
Remeasurement gains / (losses)	98,940	206	99,146
Contributions by employer	20,086	17	20,103
Contributions by participants	5,890	2	5,892
Net benefits paid out	(26,340)	(246)	(26,586)
Settlements	-	-	-
Administration costs incurred	-	-	-
Net increase in assets from disposals / acquisitions	-	-	-
Net increase in assets from re-classification	-	-	-
Closing balance at 31 March	<u>685,670</u>	<u>3,011</u>	<u>688,681</u>

2017/18	LGPS	Pilot	Total
	£000	Pension Scheme £000	£000
Opening balance at 1 April	685,670	3,011	688,681
Interest Income	17,780	68	17,848
Remeasurement gains / (losses)	2,760	64	2,824
Contributions by employer	19,987	19	20,006
Contributions by participants	5,740	5	5,745
Net benefits paid out	(28,320)	(235)	(28,555)
Settlements	(5,470)	-	(5,470)
Administration costs incurred	-	-	-
Net increase in assets from disposals / acquisitions	-	-	-
Net increase in assets from re-classification	-	-	-
Closing balance at 31 March	698,147	2,932	701,079

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 £20.54m (£118.24m in 2016/17) for the LGPS and £0.132m (£0.292m 2016/17) for the PNPf.

LGPS assets comprised:

Asset Type:	Value at 31 March 2018		Value at	
	Quoted	Unquoted	Total	31 March 2017
Equities	58.50%	4.10%	62.60%	60.30%
Property	0.70%	6.30%	7.00%	6.50%
Government bonds	23.50%	0.20%	23.70%	25.20%
Corporate bonds	1.00%	0.00%	1.00%	1.40%
Cash	2.60%	0.00%	2.60%	3.40%
Other	0.20%	2.90%	3.10%	3.20%
<b>Total</b>	<b>86.50%</b>	<b>13.50%</b>	<b>100.00%</b>	<b>100.00%</b>

PNPF assets comprised:

Asset Type:	Value at 31 March 2018		Value at	
	Quoted	Unquoted	Total	31 March 2017
Equities	34.30%	0.00%	34.30%	33.50%
Property	0.00%	0.00%	0.00%	0.00%
Government bonds	16.80%	0.00%	16.80%	17.40%
Corporate bonds	31.60%	0.00%	31.60%	31.70%
Cash	1.40%	0.00%	1.40%	1.80%
Other	15.90%	0.00%	15.90%	15.60%
<b>Total</b>	<b>100.00%</b>	<b>0.00%</b>	<b>100.00%</b>	<b>100.00%</b>

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, which is an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The City Council's fund liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the council fund being based on the latest triennial valuation of the LGPS as at 31 March 2016 and the latest valuation of the PNPf as at 31 December 2016. These calculations have been updated to 31 March 2018 by Aon Hewitt Limited allowing for the IAS 19 financial and demographic assumptions.

The principal assumptions used by the actuary have been:

2016/17	Funded LGPS	Funded Pilots Pension Scheme	Unfunded LGPS	Unfunded Teachers
Mortality assumptions:				
Longevity at 65 for current pensioners (years):				
Men	24.0	22.2	24.0	24.0
Women	27.0	24.0	27.0	27.0
Longevity at 65 for future pensioners (years):				
Men	26.0	24.3	0.0	0.0
Women	29.3	26.2	0.0	0.0
Rate of inflation	2.0%	2.2%	2.0%	2.0%
Rate of increase in salaries	3.5%	3.7%	0.0%	0.0%
Rate of increase in pensions	2.0%	2.2%	2.0%	2.0%
Rate for discounting scheme liabilities	2.6%	2.4%	2.6%	2.6%

2017/18	Funded LGPS	Funded Pilots Pension Scheme	Unfunded LGPS	Unfunded Teachers
Mortality assumptions:				
Longevity at 65 for current pensioners (years):				
Men	24.1	21.7	24.1	24.1
Women	27.2	23.6	27.2	27.2
Longevity at 65 for future pensioners (years):				
Men	26.2	23.2	0.0	0.0
Women	29.4	25.2	0.0	0.0
Rate of inflation	2.1%	2.1%	2.1%	2.1%
Rate of increase in salaries	3.6%	3.1%	0.0%	0.0%
Rate of increase in pensions	2.1%	2.1%	2.1%	2.1%
Rate for discounting scheme liabilities	2.6%	2.4%	2.6%	2.6%

## Sensitivity Analysis:

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions shown in the table above. The sensitivity analysis, below, show reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that only the assumption mentioned changes, while all other assumptions remain the same. In practice some of the changes are unlikely to occur, or they may be interrelated.

LGPS:	Present Value of		Projected Service Cost	
	Increase £m	Decrease £m	Increase £m	Decrease £m
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1044.55	1084.77	27.2	28.88
Rate of salaries (increase or decrease by 0.1%)	1068.35	1060.62	28.03	28.03
Rate of increases to pensions in payment (increase or decrease by 0.1%)	1080.85	1048.36	28.88	27.2
Post retirement mortality assumption (increase or decrease in 1 year)	1095.77	1033.31	29.03	27.03
Note - Assumes a baseline figure of £1064.47m present value of defined benefit obligation, or £28.03m 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 7% or £260,000.				
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 £80,000.				
Average life expectancy - if this were to increase by 1 year the defined benefit obligation would increase by around 5% or £190,000.				

In both cases the sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

### Commutation:

**LGPS:** Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum (no change from 2016/17).

**Pilots Pension Scheme:** It is assumed that 90% of members take the maximum cash lump sum available upon retirement.

### Impact on the City Council's Cash Flows:

LGPS - The objectives of the scheme include a funding objective which is to hold sufficient and appropriate assets to meet the schemes past service liabilities. At the 2016 triennial valuation a shortfall was identified and a strategy agreed, between Hampshire County Council (the scheme's administering authority) and Aon Hewitt (the scheme's actuary), to achieve a 100% funding level in no more than 25 years from the date of the last triennial valuation. This included setting service contribution rates along with additional annual shortfall contributions. Funding levels continue to be monitored on an annual basis and any further shortfall identified will be recovered through an additional contribution stream payable over a recovery period to be agreed at the respective valuation. The next triennial valuation is due to be completed as at the 31 March 2019 with the results expected around the 31 March 2020.

PNPF - The pension scheme's objectives include being funded prudently. At the last triennial valuation (31 March 2016) a shortfall was identified and a funding strategy was put in place to address this. The strategy included the City Council making a one-off contribution in 2013 to address its share of the deficit, and then to continue making on-going contributions, at an agreed rate, in respect of continued accrued benefits for active pilots. The next triennial valuation is due to be completed as at the 31 December 2019 with the results expected in 2020.

The total contributions expected to be made by the City Council in the year to 31 March 2019 is £21.63m (£20.32m in the year to 31 March 2018) for the LGPS and £9,000 (£8,000 in the year to 31 March 2018) for the PNPF.

## **42. Pension schemes accounted for as defined contribution schemes**

### **(a) Teachers' Pension Scheme**

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

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

In 2017/18, the council paid £4.51m (2016/17 £5.44m) to Teachers' Pensions in respect of teachers' retirement benefits. There were £0m (2016/17 £0.4m) of contributions outstanding at 31 March 2018.

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 41 (unfunded teachers).

### **(b) NHS Pension Scheme**

NHS employees TUPE'd to the City Council, as part of the transfer of public health responsibilities, are covered by the NHS Pensions Scheme. Details of the scheme can be found on the NHS Pensions website at <https://www.nhsbsa.nhs.uk/nhs-pensions>. The scheme is an unfunded defined benefit scheme which covers NHS employees. The scheme is not designed to be run in a way which would enable participating bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the City Council of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

## **43. Exceptional items**

There were no exceptional items in 2017/18.

## **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.



2016/17 £000	<b>Council Tax</b>	2017/18 £000
	<b>Income</b>	
(80,263)	Council Tax	(85,796)
	<b>Transfers from the General Fund</b>	
(26)	Council Tax write ons	(9)
	<b>Contributions received towards the estimated (deficit)</b>	
(30)	Council Tax - Hampshire Police and Crime Commissioner	0
(12)	Council Tax - Hampshire Fire and Rescue Authority	0
(227)	Council Tax - Portsmouth City Council	0
<b>(80,558)</b>		<b>(85,805)</b>
	<b>Expenditure</b>	
	<b>Distribution of estimated Council Tax Surplus</b>	
0	Council Tax - Hampshire Police and Crime Commissioner	194
0	Council Tax - Hampshire Fire and Rescue Authority	76
0	Council Tax - Portsmouth City Council	1,474
0		1,744
	<b>Precepts</b>	
8,591	Council Tax - Hampshire Police and Crime Commissioner	9,155
3,352	Hampshire Fire & Rescue Authority	3,532
65,228	Council Tax - Portsmouth City Council	70,774
77,170		83,461
	<b>Bad and Doubtful Debts</b>	
1,059	Council Tax - amounts written off	803
126	Council Tax - change in provision	676
<b>78,355</b>		<b>86,684</b>
(2,203)	<b>(Surplus) / deficit for the Year</b>	879
(133)	(Surplus) / Deficit brought forward 1 April	(2,336)
(2,203)	(Surplus) / Deficit for the Year	879
<b>(2,336)</b>	<b>Council Tax balance as at 31 March - (Surplus) / Deficit</b>	<b>(1,457)</b>
	<b>Apportioned :</b>	
(259)	Hampshire Police Authority	(62)
(101)	Hampshire Fire & Rescue Authority	(160)
(1,976)	Portsmouth City Council	(1,235)
<b>(2,336)</b>		<b>(1,457)</b>

2016/17 £000	<b>Business Rates</b>	2017/18 £000
	<b>Income</b>	
(82,726)	Income from Business Ratepayers	(80,738)
(3,823)	Add: Backdated Refunds charged to the Provision	(4,005)
865	Less: Increase / (Decrease) Provision for Losses on Appeals	787
(85,684)		(83,956)
	<b>Contributions received towards estimated Deficit / (Surplus)</b>	
(318)	DCLG	1,509
(312)	Portsmouth City Council	1,478
(6)	Hampshire Fire & Rescue Authority	30
(636)		3,017
<b>(86,320)</b>		<b>(80,939)</b>
	<b>Business Rates Apportioned to:</b>	
40,707	DCLG	40,769
39,893	Portsmouth City Council	39,953
814	Hampshire Fire & Rescue Authority	815
740	DCLG - Transitional Surcharge / (Relief)	1,459
277	Cost of Collection	275
18	Interest Paid on Overpayments Refunded	4
	<b>Bad and Doubtful Debts</b>	
741	NNDR - Amounts written off	549
(156)	NNDR - Increase / (Decrease) in Provision	485
<b>83,033</b>		<b>84,309</b>
(3,287)	<b>(Surplus) / Deficit for the year</b>	3,370
66	(Surplus) / Deficit b/fwd 1 April	(3,221)
(3,287)	(Surplus) / Deficit for the Year	3,370
<b>(3,221)</b>	<b>Non Domestic Rates as at 31st March - (Surplus) / Deficit</b>	<b>149</b>
	<b>Apportioned:</b>	
(1,611)	DCLG	75
(1,578)	Portsmouth City Council	73
(32)	Hampshire Fire and Rescue Authority	1
<b>(3,221)</b>		<b>149</b>
<b>(5,557)</b>	<b>Total Collection Fund (Surplus) / Deficit</b>	<b>(1,308)</b>

## 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	14,749	6/9	9,833
B	23,117	7/9	17,980
C	17,919	8/9	15,928
D	5,163	9/9	5,163
E	3,124	11/9	3,818
F	1,481	13/9	2,140
G	582	15/9	970
H	24	18/9	48
	66,159		55,880
Less: adjustment for non-collection			(1,229)
Add: MoD dwellings contribution			680
<b>2017/18 tax base</b>			<b>55,331</b>

Multiplying the 2017/18 tax base of 55,329.9 by the standard council tax of £1,508.42 gives the total precepts on the Collection Fund of £83.46m.

## 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.

- Department of Communities and Local Government (DCLG) - 50%
- Portsmouth City Council - 49%
- Hampshire Fire and Rescue Authority (HF&RA) - 1%

The total business rates rateable value as at 31 March 2018 was £219.36m.

The business rates multiplier for the year was 46.6p for small businesses and 47.9p for other business properties.

After the granting of various reliefs and exemptions the net rates due totalled £84.4m.

In closing the 2017/18 accounts it was deemed necessary to make a provision of £15.2m 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 £1.457m as at 31 March 2018. The Council Tax side of the Collection Fund was estimated to result in a surplus of £1.210m in January 2018. The improvement on outturn of £0.247m is mostly attributable to a reduction in the provision for bad debts due to an improvement in collection rates.

#### **Business Rates**

The Business Rates part of the Collection Fund has realised a deficit of £0.149m as at 31 March 2018. The Business Rates side of the Collection Fund was estimated to result in a surplus of £1.115m in January 2018. The decline in the outturn was attributable to a greater than expected refund being awarded to the Ministry of Defence as a result of a merger of HM Naval Base assessments.

This decline on the Collection Fund will be distributable across the precepting bodies in the financial year 2019/20.

## 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.

2016/17 £000	2017/18 £000
<b>Expenditure</b>	
23,206 Repairs & Maintenance Supervision & Management	23,475
14,044 General	13,622
12,887 Special Services	13,591
988 Rent rates taxes & other charges	1,300
Depreciation (and Impairments) of Non-current Assets:	
(55,680) - Dwellings	(8,851)
1,846 - Other Assets	5,718
177 Amortisation of Intangible Assets	121
18 Amortisation of Revenue Expenditure Funded from Capital Under Statute	0
66 Debt management costs	60
20 Movement in allowance for bad debts	(223)
0 Sums directed by the secretary of state	0
<b>(2,428) Total Expenditure</b>	<b>48,813</b>
<b>Income</b>	
(66,232) Dwelling rents (gross)	(65,401)
(2,460) Non-dwelling rents	(3,143)
(10,989) Service charges (Tenants charges for services)	(11,587)
<b>(79,681) Gross rents</b>	<b>(80,131)</b>
(1,809) Leaseholders charges for services & facilities	(1,672)
(1,087) Other Charges for Services & Facilities	(1,063)
(617) Contributions toward expenditure	(562)
<b>(83,194) Total Income</b>	<b>(83,428)</b>
(85,622) <b>Net Cost of HRA Services as included in the CIES</b>	<b>(34,615)</b>
377 HRA's share of corporate & democratic core	229
<b>(85,245) Net cost of HRA Services</b>	<b>(34,386)</b>
(2,202) (Gain) or loss on the sale of HRA non-current assets	(2,319)
8,944 Interest payable & similar charges	6,230
(273) Interest and investment income	(234)
1,615 Pensions interest cost and expected return on pensions assets	1,512
(654) Income, expenditure changes in the fair value of investment	(92)
(3,029) Capital grants and contributions receivable	(134)
<b>(80,844) Surplus / Deficit for the year on HRA services</b>	<b>(29,423)</b>

## Movement on the HRA Statement

2016/17 £000	2017/18 £000
<b>(13,906) Balance on the HRA at the end of the previous year</b>	<b>(18,609)</b>
(80,844) (Surplus) or deficit for the year on the HRA Income & expenditure account	(29,423)
76,957 Adjustments between accounting basis & funding basis under statute	22,918
<b>(3,887) Net (Increase) or decrease before transfers to or from reserves</b>	<b>(6,505)</b>
(3,876) Transfers to / from reserves	(351)
3,060 Capital Expenditure charged to Revenue	351
<b>(4,703) Increase / decrease in HRA in year</b>	<b>(6,505)</b>
<b>(18,609) Balance on the HRA at the end of the current year</b>	<b>(25,114)</b>

The Income & Expenditure account shows the Housing Revenue Account's actual financial performance for the year, measured in terms of resources consumed and generated over the last twelve months. However the 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 £27.5m of prior year impairments were reversed in the 2017/18 Income and Expenditure Account. The credit of £27.5m in the 2017/18 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.

## Note to the Movement on the HRA Statement

2016/17 £000	2017/18 £000
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	
<b>- Adjustments involving the Capital Adjustment Account:</b>	
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>	
74,861 Charges for depreciation and impairment of non-current assets	24,630
(177) Charges for amortisation of intangible non-current assets	(24)
2,202 Net gain/loss on disposal of non current assets	2,317
(18) REFCUS written down	(2)
<b>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
2,954 Sums set aside from revenue to fund capital expenditure	-
<b>Other Adjustments</b>	
3,029 Capital grants and contributions credited to the HRA	134
(2,050) Reversal of Major Repairs Allowance credited to the HRA	(2,053)
(4,781) Reversal of items relating to retirement benefits debited or credited to the HRA	(4,855)
2,291 Employer's pension contributions and direct payments to pensioners payable in the year	2,540
- Transfer from accumulated absences	16
- Reversal of finance leases	-
(1,354) Other adjustments	215
<b>76,957</b>	<b>22,918</b>

## Note on the Housing Revenue Account

### Gross Rent Income

This is the gross rent income for the year after allowance is made for voids etc. During the year, 1.53% of lettable dwellings were vacant. In 2016/17 the figure was 2.14%. The average dwelling rent was £85.80 per week in 2017/18 (£86.51 per week in 2016/17), a decrease of £0.71 over the previous year. The amount of arrears as at the end of the financial year was £2.6million.

### Depreciation of non-current assets

The depreciation charge is broken down as follows:

	2016/17 £000	2017/18 £000
Council houses	19,181	19,448
Other assets	2,224	2,174
	<b>21,405</b>	<b>21,622</b>

## Revaluations Down & Impairments

Revaluations down & impairments are a reduction in the value of an asset, measured by specific criteria, to below its carrying amount in the balance sheet. Revaluations down & impairments which were charged to the HRA may be reversed if an asset is subsequently revaluated upwards.

	2016/17	2017/18
	£000	£000
Council Houses	(74,860)	(28,300)
Other Assets	(250)	3,584
	<b>(75,110)</b>	<b>(24,716)</b>

## IAS 19 - Accounting for pensions

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

## Capital Reserve

A Capital Reserve was established during 1991/92 as part of the Housing Investment Programme (HIP) financing policy. £0.35m was transferred from the reserve to finance capital expenditure in 2017/18 leaving the reserve with a balance of £1.1m.

### 1) Transfer to/from Major Repairs Reserve

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

	2016/17		Repayment		2017/18
	Total	Houses Other	of borrowing		Total
	£000	£000	£000	£000	£000
Balance at 1 April 2017	-	-	-	-	-
Transferred from HRA	(19,181)	(19,448)	(2,053)	-	(21,501)
Transferred to HRA	-	-	2,053	-	2,053
Financing of capital expenditure	19,181	17,608	-	-	17,608
Balance at 31 March 2018	-	(1,840)	-	-	(1,840)

### 2) Housing stock

The City Council was responsible for managing an average of 14,787 dwellings (excluding mobile homes) during 2017/18. The stock as defined by the Housing Revenue Account Subsidy regulations at 31 March was as follows:



	<b>No. of dwellings</b>	
	<b>2016/17</b>	<b>2017/18</b>
Houses	4,386	4,353
Flats	10,423	10,412
	14,809	14,765
Mobile homes	-	-
	<b>14,809</b>	<b>14,765</b>

The change in stock can be summarised as follows:

	<b>No. of Dwellings</b>	
	<b>2016/17</b>	<b>2017/18</b>
<b>Stock at 1 April</b>	<b>14,882</b>	<b>14,809</b>
Mobile Homes no longer within HRA	-	-
Sales	(96)	(73)
Bedsit conversions	(6)	-
Demolitions	-	-
Repurchases	-	11
Additions	8	4
New builds	21	15
Change in use	-	(1)
<b>Stock at 31 March</b>	<b>14,809</b>	<b>14,765</b>

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

	Council dwellings	Other land & buildings	Other non-operational assets	Other assets	Total
	£000	£000	£000	£000	£000
Net book value at 1 April 2017	593,557	37,754	31,373	2,528	665,212
Adjustments	-	1,893	7	(755)	1,145
Revised Net book value 1 April 2017	593,557	39,647	31,380	1,773	666,357
Depreciation during the year	(19,448)	(1,467)	(570)	(137)	(21,622)
Revaluations/Impairment during the year	28,300	2,499	(4,943)	90	25,946
Additions	1,723	-	36,482	-	38,205
Disposals	(3,512)	-	-	-	(3,512)
Transfers between categories	31,653	304	(31,840)	(117)	-
Appropriations	-	220	-	-	220
<b>Net book value at 31 March 2018</b>	<b>632,273</b>	<b>41,203</b>	<b>30,509</b>	<b>1,609</b>	<b>705,594</b>

The disclosure note has been restated to a different presentational format and to take account of audit adjustments from 2016/17 which were omitted from last year's disclosure note.

### Vacant possession value of dwellings within the HRA

The vacant possession value of dwellings held within the HRA amounts to £1,915m at 31 March 2018.

The substantial difference between this figure and the net book value figure of £633m reflects the economic cost to government of providing council housing at less than open market rents.

### 4) 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	-	13,001	-	13,001
Usable capital receipts	-	6,441	-	6,441
Revenue contributions	-	38	313	351
Major Repairs Reserve	-	17,608	-	17,608
Grants and contributions	-	798	-	798
	-	37,886	313	38,199

### 5) Bad Debt Provision

	31 March 2017	Additions and reductions	Write-offs	31 March 2018
	£000	£000	£000	£000
Housing rents provision	(2,950)	186	310	(2,454)
Sale of flats provision	(88)	43	0	(45)
Provision for other HRA bad debts	(62)	(16)	0	(78)
	(3,100)	213	310	(2,577)

## Glossary of Terms

### 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).

### 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.

## **Comprehensive Income & Expenditure Statement**

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

## **Contingent Liabilities**

A contingent liability arises from either:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority, or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or
  - the amount of the obligation cannot be measured with sufficient reliability

## **Continuing Service**

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

## **Corporate & Democratic Core**

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

## **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.

## **Finance Lease**

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

## **General Fund**

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

## **Housing Revenue Account (HRA)**

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

## **Impairment**

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

## **Intangible assets**

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

## **Interest Cost (pensions)**

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

## **International Financial Reporting Standards (IFRS)**

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

### **Inventories**

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

### **Investment (Pension Fund)**

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

### **Liability**

A Liability is an obligation that the City Council expects to have to meet in monetary terms. Liabilities are categorised as either non-current or current. A non-current liability is an obligation that the City Council expects to meet in a period of time greater than one year. A current liability is expected to be met within one financial year.

### **Long-Term Debtor**

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

### **Materiality**

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

### **Minimum Revenue Provision (MRP)**

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

### **Movement in Reserves Statement**

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

### **Non-Current Assets**

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

### **Non-Distributed Costs**

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

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

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

### **Net Assets**

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

### **Operating lease**

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

### **Pension scheme liabilities**

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

### **Precept**

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

### **Provision**

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

### **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

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

### **Revenue Support Grant**

A non-ringfenced grant paid, by central Government, to the City Council to contribute towards the general cost of its services.

### **Short-Term Borrowing**

Money borrowed for a period of less than one year.

**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.

**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.