



**Draft
Statement
Of
Accounts
2018/19**

The City Council's draft Statement of Accounts for 2018/19 is currently unaudited and may be subject to change

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Narrative Statement

Financial Year Ended 31st March 2019

Introduction

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

Overview

Our context - the city

Portsmouth is the UK's only island city, with Portsea Island accounting for 62% of the city's land mass. Portsmouth is the most densely populated area in the UK outside London, with an estimated population of 214,000 residing within 15.5 square miles.

Portsmouth is ranked 57th most deprived out of 326 local authorities in England (where 1 is the most deprived), with 15% of the city's population experiencing income deprivation. Charles Dickens ward is the most deprived ward in the city across many indicators. 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 ethnicity, 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 housing stock accounts for nearly 81% of the dwellings in Portsmouth, with the remainder divided between the local authority (13%) and registered social landlords (6%). Nearly half of the private sector housing stock was built before 1919, which is more than twice the England average. In terms of dwelling type, 63% of Portsmouth's private dwellings are terraced houses, again twice the England average (29%).

Portsmouth performs a key role as an employment hub for its suburban hinterland, most notably the boroughs of Fareham, Gosport and Havant which supply nearly a quarter of the city's workforce. Unemployment in the city is typically on a par with the average for Great Britain, but around 0.5% higher than the South East region's average. An estimated 4.9% of the city's 16 - 18 year olds were NEET (Not in Education, Employment or Training). This is lower than both the England average and the SE regional average, and is reducing. Adults in Portsmouth have lower than average levels of skills and qualifications, with approximately 24% of the working age population having no or low qualifications (NVQ1 equivalent). Local resident earnings are significantly lower than local workplace salaries, suggesting that many of the higher level jobs are filled by people commuting in to the city.

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. There is also limited road capacity due to the "island" nature of the city, and only three road routes off Portsea Island, although congestion levels compare well with other cities. However, traffic and associated emissions are a significant challenge to air quality in certain areas of the city.

Our context - the City Council and how it works

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

The council has 14 wards, each served by 3 councillors and operates a Leader and Cabinet decision making system.

The Cabinet currently consists of the Leader of the Council and nine other Cabinet members. The Leader is elected by Full Council, and it is for the Leader to select the Cabinet members. The Cabinet makes decisions on important matters that affect the City Council as a whole. Each of the Cabinet Members has responsibility for a portfolio of Council activities and in 2018/19 these were:

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

Roles, responsibilities and the way the council conducts business are set out in the Constitution of the City Council.

The City Council is managed by the Chief Executive, who is the Head of the Paid Service. The Chief Executive is supported by directors, each of which deals with a broad portfolio of the functions of the authority. Some of these directorates are changing in response to a structural review in 2019. The current director team is:

- Deputy Chief Executive and Monitoring Officer (post holder retiring in May 2019; Deputy Chief Executive role to be abolished and monitoring officer duties to be assumed by another officer)
- Director of Children, Families and Education (and statutory Director of Children's Services)
- Director of Adult Social Care (shared post with the Portsmouth Clinical Commissioning Group)
- Director of Finance and Information Technology (statutory s151 officer) [*Directorate in process of adjustment responding to restructure*]
- Director of Public Health (shared post with Southampton City Council)
- Director of Culture, Leisure and Regulatory Services [*Directorate in process of adjustment responding to restructure*]
- Director of Regeneration
- Director of Housing, Neighbourhoods and Buildings
- Director of Community and Communication (post holder leaving the authority in May 2019 and functions to be reassigned)
- Director of HR, Legal and Performance [*Directorate in process of adjustment responding to restructure*]
- Portsmouth International Port Director

Our context - our partners

The city has excellent partnership working, with other local authorities, and with colleagues in health, including the Clinical Commissioning Group (CCG), the police, probation, fire and rescue service, university, the voluntary and community sector and with businesses.

For many years, there have been three key theme-based strategic partnerships - the Health and Wellbeing Board, Children's Trust, and the Safer Portsmouth Partnership. These partnerships have recently been reviewed and have been merged into a single Health and Wellbeing Board with a broadened remit and membership, to improve efficiency and ensure that issues are being considered strategically that affect people across the city.

There are other partnership arrangements around the city's regeneration efforts such as the Solent Local Economic Partnership (LEP), 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 had been in discussion with other local authorities in the area about a devolution deal with government.

The unitary authorities of Portsmouth City Council, Southampton City Council and Isle of Wight Council submitted a proposal to the Secretary of State for a Solent Mayoral Combined Authority. This proposal was not accepted, but the local authorities in the area continue to explore options for working together. This year, 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, and the development of the Regional Adoption Agency, called Adopt South).

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

Our context - finances

The largest share of the money that the City Council receives comes from government grants. Since 2011/12, the overall central government funding to PCC has reduced by over £78m (amounting to a funding reduction of 54%). Taken together with other financial pressures (mainly relating to inflation, the effects of an ageing population on care services and the increased requirements for safeguarding of vulnerable children), total savings over the period of £98m have been made by the council.

PCC remains a low taxing authority. The City Council currently receives approximately £6m per annum less in Council Tax than the average unitary authority within its statistical neighbour group. Council Tax represents 46% of PCC's overall funding base with annual rises limited by "referendum thresholds" which are set by Government annually. Over the past 8 years, Council Tax increases have not been sufficient to keep pace with the levels of inflation and other cost pressures experienced by the council. Council Tax income has risen by £18m over the period since 2011/12 with inflation and other costs rising by over twice that amount to £38m.

In overall terms, the financial picture over the next 3 years and beyond is one of increasing costs and demand for services, particularly in essential care services, at the same time as continued reductions in funding, leading to an overall forecast deficit over the next 3 years of at least £12m.

Considering also that those essential care services consume 46% of the City Council's net controllable budget, the council is faced with a position where it not only has to meet those costs, or at the very least manage the demand for services, but simultaneously find at least £12m of savings across all areas.

The City Council's Medium Term Financial Strategy has been developed to respond to these very challenging circumstances. The Strategy has a strong regeneration and value for money focus with a presumption that capital investment will be targeted towards cost savings, income generation and economic growth.

The Strategy is underpinned by a financial framework which 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 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 approved savings proposals for 2019/20 provided 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 innovative, creative and protecting the most important and valued services. There are four strands to the strategy:

Transforming to an Innovative and Creative Council: Income Generation; Regeneration and meeting housing needs; strategic use of 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

Reduce the extent to which the population needs Council Services: Re-direction of resources towards preventative services (avoid greater costs downstream); Design fees & charges policies to distinguish between want and need; Capital investment towards jobs and skills to raise prosperity

Increase the efficiency & effectiveness of the Council's activity: Contract reviews; Rationalisation of operational buildings; Support to the Voluntary Sector; Targeted efficiency reviews in "resource hungry" services; Capital investment for on-going savings or cost avoidance

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 great pressure on public finances, the Council needs to tackle huge need in the community, some key barriers to economic growth and continue to deliver the services that support a vibrant city.

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

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

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

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

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

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

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

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

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

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

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

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

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

HIVE Portsmouth is:

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

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

Regenerating the city to ensure that it continues to provide great opportunities for residents, businesses and visitors remains a major priority. For Portsmouth, the cultural and creative sector is at the heart of regeneration, and we are looking to create new cultural focal points and experiences in the city. This includes building on the growing city reputation for events. The Victorious Festival will return again for 2019, and the city will take a lead role in commemorations for the 75th Anniversary of D-Day and the Battle of Normandy.

Our work to mark the anniversary has already started. The D-Day Story re-opened last year after a £5m redevelopment and has already received excellent reviews from visitors, as well as being shortlisted for the European Museum of the Year Award. The new museum attracted over 80,000 visitors during its first year in operation and has become a valuable addition to our visitor economy.

Portsmouth will be the focus of national and international attention on Wednesday 5 of June when Southsea Common will host the UK's national commemorative event for D-Day 75. After 5 June, PCC will facilitate events with a community focus encapsulating the themes of remembrance, reflection and reconciliation, including the Portsmouth Revival, a vintage festival including military and classic vehicles and vintage stands and traders, along with community performances. Portsmouth Museum will also host a special exhibition of portraits of D-Day veterans loaned by the Royal Collection Trust.

Portsmouth's contribution to the ongoing legacy of D-Day will not end in June. In 2020 the last surviving Landing Craft Tank in Europe - LCT 7074 - will open on Southsea seafront, in partnership with the National Museum of the Royal Navy. The Portsmouth D-Day Museum Trust will also continue to support the work of the D-Day Story through the Normandy Memorial Wall.

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

As part of the City Deal secured in 2014, the Tipner/Horsea development site will be unlocked. Areas of Tipner have long been largely derelict, but the land has massive potential to form a key gateway to Portsmouth. Regenerating the area will bring major benefits to the city, most notably, free up the road network; encourage sustainable transport; clean-up contaminated land; create new open spaces, parks and waterside walks; create much needed homes and jobs.

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

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

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, supporting our efforts to improve air quality. It could also improve the connectivity of the city centre, allowing easy access to the whole centre and opening up a number of sites for development.

Creating a high quality and safe environment that should increase the appeal of the area as a place to invest, work, live and spend leisure time.

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 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 air and the environment, and create a sense of place.

Make our city cleaner, safer and greener

Like many cities across the country Portsmouth is facing a serious problem with air quality. Newly available monitoring data shows the situation is continuing to get worse and we won't improve the situation as quickly as the government would like.

Everyone has a part to play in improving air quality within our city. Leaflets have been sent to all homes in Portsmouth to increase awareness, and there are lots of actions underway including:

- Making travel greener by introducing electric vehicle charging points on-street and in our car parks, and retrofitting over 100 buses to remove dangerous chemicals from exhaust fumes.
- Expanding sustainable alternatives to the car with the introduction of the new Park & Ride route, PR2.

- Improving traffic flow across the city with projects like moving and enhancing the Anglesea Road crossing.
- Making sustainable travel choices more accessible with improvements to cycling including a new joint pedestrian & cycling crossing in Fratton, traffic calming measures along the A2047 and a new city bus depot is being investigated.
- Managing finite parking capacity fairly with residential parking zones with a rolling programme of consultation so residents can decide what is right for their area.
- Securing over £2.5m in funding to help address air pollution in the city.

There is also a great deal of work underway to build new sea defences for the city. The current defences are coming to the end of their lifespan, which increases the risk of flooding in Southsea. Our aim is to create new defences. The work will improve the seafront for future generations and stimulate regeneration, whilst protecting the community and preserving the area's unique heritage. Extensive consultation has been undertaken on possible design options and work is now underway to work up a full business case to achieve funding from partners including the Environment Agency.

The City Council also took a unanimous decision in March 2019 to support a motion to declare a climate emergency for the city (one of 49 local authorities in the country to have taken such action), which included pledges to develop an action plan for reducing the carbon footprint of the city.

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

Education is the foundation stone to give our children and young people the best chances in life. We must make education 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 therefore want to raise education standards so that 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 (including one multi-site provision). In addition there are two further education colleges, one maintained nursery school and a University Technical College (UTC), which is a school for young people aged 14-19 interested in pursuing a technical career. UTC Portsmouth has specialisms in Electrical & Mechanical Engineering and in Advanced Manufacturing. These specialisms are key to helping our economy to grow.

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

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

The PEP vision is to ensure that educational attainment and progress improve significantly year on year so that children and young people are prepared for the widest career opportunities:

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

We are also working hard to support our most vulnerable children and families, through the next phase of the Stronger Futures programme. There is a national picture of increasing numbers of children becoming looked after by the authority, and this is the case in Portsmouth, which also has a pressure from unaccompanied minors arriving in the city. PCC is currently looking after the highest number of children it has ever cared for, and also providing support for children in need of protection and at an early help stage.

This picture indicates that we need to consider how we are supporting families with challenges, to improve their outcomes but also to ensure that we can afford to provide services and that are sustainable. So the three priority areas for the Stronger Futures are:

1. Integrating services and support to provide excellent early help and reduce demand for high cost statutory services.
2. Delivering excellent family-based practice to strengthen families and avoid the need for long-term alternative care.
3. Providing excellent care for looked after children and care leavers to maximise their life chances and avoid high "failure cost" care.

This programme will build on the work that has already taken place to improve the quality of services for vulnerable children. Ofsted acknowledged this in 2018, when our children's services were judged to be "good" overall, improving from "requires improvement" in 2014. This was a huge achievement in the context of increasing demand.

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

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

There are many examples of how as an authority we are trying to embody this aim in our work. We are taking a real "Portsmouth First" approach to our property investments, and taking a creative approach to generating income so we can support local communities despite financial challenges.

We are working to ensure we have a modern, flexible, highly skilled, supported and motivated workforce to provide services that meet the needs of residents, and we are committed to ensuring that our staff are paid a Foundation Living Wage.

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

In some areas of our business, we are looking at restorative practice, which is an approach that can be applied to relationships both with colleagues in the council and externally with customers. It is about working 'with' people and empowering them to have a voice. Restorative practice has the potential to impact on every area of life, and ensures that communication is respectful, accessible and safe with a focus on restoring relationships, by promoting conversation and choice rather than apportioning blame.

The agenda set out above is extensive and challenging, particularly because need and demand continue to rise as resources reduce. 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. 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 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 Cabinet members; to the full Cabinet as part of the quarterly finance and performance reports; and in detailed reports to members of the Governance and Audit and Standards Committee.

Adult Social Care

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

The Ministry of Housing, 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. While the Government made funding available in 2015-16 to meet the increased costs, this additional funding was below the level required (a national pot of £25m against an estimated requirement of £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 "back loaded", 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 for adult social care support grant for 2017-18, distributed according to relative need, as a short term measure. This was intended to compensate, in part, for the "back loading" of the "improved Better Care Fund".

In November 2018, the Chancellor announced as part of the Autumn Budget an additional £650m nationally for one year, related to Adults and Children's Social Care of £650m nationally, but announced for 2019/20 only. This will help to alleviate the existing and emerging financial pressures in those areas in the short term but unless confirmed into future years will not have any impact on future budget rounds. A Comprehensive Spending Review is planned for next year and this will set the overall envelope for the Public Sector, and alongside the Local Government Finance Settlement for 2020/21, may provide much more certainty for Council funding over the subsequent 4 year period.

For Portsmouth, this all means that over the past 8 years, costs have risen substantially. The combination of inflation plus unavoidable cost pressures in the city, particularly in Adults and Children's Social Care, have added an overall cost burden to the authority of £38m over the period. The cost of providing services continues to rise and at a level beyond the rate of inflation. In general, the cost of providing Adult Social Care Services is driven by the following:

- Pay and price inflation which will include the increasing cost of the National Living Wage (4.9%), general price increases and increases in interest rates
- Increases in demand for services, largely driven by social, economic and demographic pressures such as the living longer population
- The extent to which new responsibilities conferred on the City Council by Government are adequately funded.

The City Council faces a real conundrum in achieving the desire to provide outcome focused services that keep people independent and safe, whilst needing to ensure they are financially sustainable so that the wider portfolio of public services can still be delivered.

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 promoting their wellbeing and independence.

In Portsmouth, we are ambitious for what we want to achieve with our residents and communities. We are developing a Blueprint for Adult Social Care (ASC) in Portsmouth, which will set out how care will be shaped in the future so that it can provide the services people need to achieve the outcomes they want at a cost that is manageable.

For our domiciliary, residential and nursing care responsibilities, capacity continues to be tight, although there are sufficient residential home beds available in Portsmouth. A process has been completed to transfer the running of the Harry Sotnick House provision from Care UK to Hampshire County Council, which will bring additional capacity into the city.

The City Council's own residential units have presented significant challenges in 2017/18, with a number of critical CQC reports. A turnaround team for these units was established, with the aims of reviewing the City Council's residential homes and ensuring the Harry Sotnick House transfer is well managed. This work led to immediate improvements in quality, and the development of a Care Home Strategy approved by the Cabinet Member in November 2018, which set out a three year programme for change.

We are also looking at the reablement pathway at associated services in the city to ensure that these are effective and accessible services. This responds to findings that not enough service users are supported through effective reablement, and is a core plank of our ASC Blueprint.

In the field of Learning Disabilities, we continue to change our model of services, recommissioning provision that focused on the four Preparing for Adulthood outcomes:

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

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 reduced spending pressures. However, whilst there has been significant progress, we still need to establish equitable 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 that the volume of inappropriate referrals into the MASH needs to be reduced, as on triage, it is clear that some referrals are requesting an assessment under the Care Act, and not MASH.

Children's Services

In 2018, the City Council's services for children and families were inspected by Ofsted. The inspectors found Services for children in Portsmouth have improved since the last inspection (when the City Council was judged to "require improvement" and that, despite increasing demand, leaders have made good progress in establishing a resilient and sustainable service. Inspectors judged that the service that children and families receive is now good overall.

The key findings of the report were that:

- the senior leadership team... have an accurate and realistic understanding of the strengths and areas for development of the service [and] use this knowledge well to actively improve services.
- Effective planning has led to a more secure and stable workforce, and most workers have manageable caseloads.
- Strong political and corporate support for children's services ensures that children's needs are prioritised.
- Children receive reliably good support at the right level, resulting in positive outcomes for the majority.
- The participation of and direct work with children and families are key strengths. Social workers are supported to deliver meaningful intervention to sustain positive change and safe long-term outcomes for children.
- Children are at the heart of social work practice.

There were some areas identified for improvement, including:

- noting that some children are subject to pre-proceedings for too long;
- that child protection plans and care planning need to be clear about what needs to be achieved, by when, and what will happen in response; and
- that effectiveness needs to be improved in escalating risks or identifying when improvements are not being made.

The service has developed robust plans to respond to these findings and the local context. 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. As previously set out, we are also working hard to support our most vulnerable children and families, through the next phase of the Stronger Futures programme, with priorities around:

- Integrating services and support to provide excellent early help and reduce demand for high cost statutory services.
- Delivering excellent family-based practice to strengthen families and avoid the need for long-term alternative care.
- Providing excellent care for looked after children and care leavers to maximise their life chances and avoid high "failure cost" care.

The service has also seen a rapid improvement in performance around the national Troubled Families programme. The national results, published for the end of Quarter 3 (Dec 2018), showed that Portsmouth had been the fastest improving authority in the country. The authority has now identified all of the families it will be working with and has been able to evidence improvement with a very high proportion of these.

Nevertheless, the continued demand pressure on children's social care is a significant financial risk to the City Council. The proposals outlined are aimed at reducing this risk, but there is a significant overspend currently, and we are vulnerable to reductions in funding streams that are currently supporting work with vulnerable children and families, such as the Troubled Families programme, the Controlling Migration Fund (which is helping us develop practice with unaccompanied minors) and the public health grant.

Education in the city continues to be a high priority. There continues 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 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 of that targeting in Portsmouth.

However, a significant local challenge is 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.

We are also seeking to address the ongoing challenge of poor attendance in some of our schools, and have launched the "Miss School, Miss Out" campaign. Evidence shows that children who attend school regularly are more successful, not only in school, but in all areas of life. We are highlighting to parents and young people that missing school means not only missing out on lessons, but also clubs, friendships, careers support, trips and all the other opportunities that school has to offer. Last year 1 in 5 children in Portsmouth missed a week of school because of unauthorised absence, leaving gaps in their learning.

The national Strategic School Improvement Fund (SSIF) has funded a project in the city to improve the attainment of children and young people on "SEN support" in mainstream schools. Early evaluation suggests that this project should lead to improved outcomes, but this will be over a period of time. We are considering how the benefits of this work can be rolled out and sustained beyond the life of the project.

In 2018, we completed an important strategic review of provision for children with special education needs, designed to secure good outcomes for children and young people with levels of investment which are affordable within the new rules on school funding. The recommendations are coherent and appropriate and we are now working with partners including schools and health commissioners to implement the findings. One of these measures will be the development of a Special Free School, which the city has successfully bid for.

Public Health

The directorate has progressed some significant projects in the past year, focused on children and young people, the wider population and the environment.

Proposals were developed for the continuation of the delivery of the Healthy Child Programme in Portsmouth, to ensure that innovative and effective practice such as the ECHO programme (Enhanced Child Health-visiting Offer) can be preserved in the city. These proposals, approved in 2018, included the development of a section 75 partnership agreement with Solent NHS Trust.

The City Council was successful in securing £500,000 from Public Health England to provide support for children of alcohol dependent parents. This money will enable us to deliver a three year programme of tailored structured treatment in a Family Hub setting supporting 160 families annually (approximately 240 children). This additional provision will bolster family support already available in the city such as the Early Help and Prevention service who work with families who need extra support. It will also build capacity within maternity, schools and wider settings to identify and support families.

The programme will address money, employment, housing, crime and emotional needs to empower families to cope with the demands of daily life. In addition, a peer support group will be created to enable families to receive on-going support.

Children with alcohol dependent parents are more likely to miss school and through taking on caring responsibilities at home can miss other key parts of childhood like spending time with friends and developing hobbies. Portsmouth is a city where it is estimated that around 1,100 children live with alcohol-dependent parents, and was one of 9 areas to be awarded funding to identify and work with these vulnerable children.

As well as working to support better outcomes for children and families the directorate has also focused on other areas where outcomes in Portsmouth are significantly poorer than in other areas of the country. An audit of drug-related deaths has been completed, to identify causes and develop recommendations for improvement. There were 55 drug related deaths in Portsmouth 2014-2016, which is a significantly higher rate than the national average. The directorate is also delivering actions in the Suicide Prevention Plan, to tackle the causes of deaths by suicide in the city, where again the rate is higher than nationally.

The directorate also focuses on the environment, and an important priority is tackling the challenge of air quality in Portsmouth. Nitrogen dioxide (NO₂) monitoring indicates that levels in parts of the City exceed the National Air Quality Objective (NAQO) levels, with an annual mean (2016/17) of 49.16 µg/m³ to 43.09 µg/m³) against an annual target mean of 40 µg/m³. The city needs to address this as a matter of urgency and the directorate are supporting this work, as an important determinant of health outcomes.

Culture, Leisure and Regulatory Services

The directorate oversees a wide range of services that are incredibly important to the experience of living in the city. 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 again, with further increases in participation from 2017. Libraries continue to fulfil successfully their key role in improving literacy and providing opportunities for creative writing in the city

The new D-Day museum formally opened, and has been a great success, with visitor numbers for the year expected to exceed the target of 300,000. Although the building project is completed, work continues on delivering the ambitious education and participation programme. The museum will be a focal point for Portsmouth as it takes a central role in the national commemorations of D-Day in June 2019.

Following a significant amount of research and benchmarking with other authorities, the seafront management team's commercial activity is starting to make a positive impact on supporting economic development and creating income through offering new concession sites out for business opportunities, encouraging start-ups and providing business opportunities through negotiations on current leases. The directorate is taking a creative approach to a number of heritage assets, building on the successful Hotwalls project, and is looking to find a partner for the Lumps Fort site.

As well as open spaces, the directorate oversees the sports and leisure facilities offer in the city, and following the change of operator for facilities, to BH Live, a number of changes to sites have started to take place to improve the city offer, reflected in strong visitor numbers. Over the next year, further work will be done to progress the recommendations of the Indoor Facilities Strategy approved in 2017, to look at options for some of the aging facilities in Portsmouth.

Regulatory services have experienced another challenging year, with high demand for Environmental Health and Trading Standards services. Additional pressures in these areas have been significant, including the additional costs of increasing air quality sampling required to deliver monitoring information in line with DEFRA's requirements; and supporting preparations for future Brexit scenarios (including in relation to Port Health). These costs will place additional pressures upon the funding allocated to Regulatory Services to carry out their statutory obligations.

Another area of business that has been heavily engaged on the Brexit agenda is our Emergency Planning team. Emergency Planning Services are delivered as part of a shared service with Southampton, and in addition to meeting its work programme targets, embedding the shared service and building upon its successes to date is a major current focus. This includes supporting officers to develop into their new roles and remit and supporting the new Joint Emergency Preparedness, Resilience and Response Board. Preparations for reasonable Brexit scenarios dominated service activity throughout Q4 2018/19, and this is not yet resolved as an issue. This means that there is additional pressure when the service is required to respond to an incident. The teams have been involved in addressing adverse weather events, arrivals of refugees, fires and security incidents.

Housing, Neighbourhood and Building Services

The occupancy rate of local authority housing remains at just under 99% while rent arrears account for less than 2% of the Gross Annual Debt (GAD) owed. The number of repairs completed first time remains at around 83.5%, and given the wide range and complex nature of the repairs that are undertaken on these properties this is considered to be a realistic figure. These measures suggest that the day to day management of our housing estate is robust, although we continue to seek improvements and are carrying out an intervention in relation to void properties.

A significant issue for the city emerged in 2018, in the wake of the Grenfell House tragedy. Cladding was removed from Leamington House and Horatia House, and detailed surveys carried out to determine the safety of the blocks and suitable alternatives. These surveys highlighted problems with the original 1960s concrete construction of the blocks. As a result, additional safety measures were put in place and the City Council started the process of moving residents to new homes. This was unsettling and difficult for some, but the process was delivered sensitively, with regard given to the needs of the residents.

Further investigations showed that, because of the way the buildings were constructed in the 1960s from large concrete panels, the work needed to repair the blocks would be significant and very expensive. It is estimated that it would cost around £86 million to strengthen the two blocks. A report recommending future options for the buildings was submitted for consideration in February, and it was agreed to use the opportunity to redevelop the site to create more affordable and social housing. This will sit alongside our ongoing programme for further housing development.

The impact of the Homelessness Reduction Act and the increased duties is now becoming evident in performance data, with increases in homelessness approaches and the number of households joining the housing waiting list each quarter. The increase is not unexpected given the increased duties and should stabilise at the new levels. However, underlying issues related to the supply of housing and increasing need to use temporary accommodation continues to be a concern. The City Council is developing a new Homelessness Strategy, which will be adopted in 2019.

Supporting people who are sleeping rough continues to be a priority, and some successful measures have been introduced. The official annual count of rough sleepers showed 19 people sleeping on the city's streets in November 2018, compared to 42 in November 2017.

In 2018, the City Council secured £384,000 from the government, which has enabled funding of night shelters and more resources are going into outreach services to provide help on issues such as physical and mental health, drugs or alcohol. As well as the night shelters, the council funds a homeless day service which offers showers, laundry facilities, blankets, a clothing store and advice on housing, health and employment. The City Council has launched a rough sleeping strategy, which looks at all of the needs of a person, and looks to provide an "accommodation first, but not accommodation only" approach.

The performance of the waste management service continues to be good, and ongoing problems of high levels of rubbish and low recycling rates (24.8%) continue to be addressed through trials to provide wheelie bins to limit waste and improve recycling around the city. The roll out of wheelie bins was completed at the end of 2018, and there are positive early signs that trends are improving as a direct result of the roll out.

Regeneration

The Directorate has been working to ensure statutory duties are met and that work is focused on the key tasks that contribute to our corporate priorities and the regeneration of the city. Over 2018, adjustments have been made to some teams to enable delivery of important objectives such as improving air quality and the development of strategic sites.

Traffic and network management is of huge importance in any city, but especially in one as tightly constrained as Portsmouth. Good progress has been made in delivering the 2018/19 Local Transport Schemes with most in the delivery stage or complete. We have responded to the ministerial directive to produce an Air Quality Local Plan by collaborating across services and aligning resources to achieve the deadline.

Work continues to reach as many young people as possible to travel safely using active modes of transport, with projects such as Portsmouth Smart Steps and Bikeability being delivered widely across the city.

The directorate is progressing a new Economic Development and Regeneration Strategy to set out priorities for the organisation and partners. This will provide the framework in which services such as our own Enterprise Centres and the Employment, and the Learning and Skills service will be provided in future. However, both services are currently successful in their own right. The Enterprise centres have increased occupancy levels and continue to receive new enquiries. All three centres are being improved to remain up to date with the needs of businesses. The high speed broad band is being rolled out to all centres with high satisfaction rates from businesses. The Employment Learning and Skills (ELS) service are continuing to achieve good outcomes for local people. Construction training programmes are under development to enable construction workers to become site ready. A number of people have completed Level 2 and Level 3 apprenticeships in Business and Administration and Customer Service apprenticeships, with a steady flow of new Apprenticeships being initiated.

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

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

Corporate Services

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

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

Collection of council tax and National Non Domestic rates (NNDR) continues to be strong, as does the collection of overpaid housing benefits, and claiming of subsidy.

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

A particular achievement in 2018/9 has been to receive a Gold award in the Defence Employers Recognition scheme in acknowledgment of our work in support of the Armed Forces Covenant. Portsmouth is the first unitary authority in the south east to receive this accolade. The Armed Forces Covenant is a promise from the nation that those who serve or have served in the British military, and their families, are not disadvantaged by their service. Portsmouth is one of 407 local authorities in Great Britain that have pledged to uphold the Armed Forces Covenant.

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 authority 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 capacity of those staff to deliver increasingly complex briefs is a key risk to the organisation. We know where we are being effective, and are delivering good value for money. We know where improvements need to be made, and in most cases have a good understanding of how these can be delivered, and a plan to deliver the improvements. We focus on our priorities and on achieving our goal of ensuring that Portsmouth fulfils its potential as a great waterfront city.

Financial Statements 2018/19 - Commentary

The City Council has applied a preparer's materiality limit of £7m in compiling the financial statements. The City Council has generally not included disclosure notes for items 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 2019. The City Council's net worth is balanced by its reserves which are classified into usable and unusable reserves. Usable reserves may be used by the City Council to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The unusable reserves hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".
- **Cash Flow Statement:** This statement shows how the City Council generates and uses cash.
- **Notes to the Financial Statements:** These provide supporting information and analysis of the core financial statements described above.
- **Collection Fund:** This statement shows the transactions of the City Council as the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.
- **Housing Revenue Account (HRA):** This account shows income and expenditure arising from the provision of Council Housing based on International Financial Reporting Standards. This section of the accounts also includes a Statement of Movement on the HRA which shows the statutory amounts charged to the HRA for rent setting purposes.

Changes to Accounting Policies in 2018/19

Local authorities, including the City Council, have adopted a new accounting standard on financial assets and liabilities. This principally affects the disclosures in note 17, Financial Instruments.

Financial assets were previously 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 price and / or do not have fixed or determinable payments

Most financial assets previously classified as loans and receivables will be reclassified as Financial Assets Measured at Amortised Cost. The Council does hold a small number of structured notes where the fair value, or market value, is determined by stock market indices or carbon credit prices. These structured notes will be reclassified as fair value through profit and loss (FVPL). This means that changes in their market value will impact the revenue account and General Fund balances. The market value of these structured notes will equate to their face value at maturity, providing that the issuer does not default.

The Council has held its equity shares in Portico Shipping Services (formerly MMD) Hampshire Community Bnk, the UK Municipal Bonds Agency Plc, and Victory Energy Services as Available for Sale Assets. The default position under the new accounting standard is that these shares would be reclassified as fair value through profit and loss with changes in their market value impacting the revenue account and General Fund balances. However, under the Code of Practice for Local Authority Accounting the Council has irrevocably opted to reclassify these investments as measured at Fair Value through Other Comprehensive Income (FVOCI). These means that changes in the market value of these investments will not impact the revenue account or the General Fund balances until they are disposed of.

As part of the adoption of the new accounting standard the Available for Sale Reserve has been written out and replaced with a Financial Instrument Revaluation Reserve.

Financial assets previously measured as "Loans and Receivables" are now classified as "Financial Assets Measured at Amortised Cost". There is no change from the previous accounting treatment.

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 38.

2018/19	Net Expenditure chargeable to the General Fund and HRA	Other Movements	Adjusted Net Expenditure chargeable to the General Fund and HRA	Adjustments between Accounting & Funding Basis (Note 7)	Net (Income) or Expenditure in the Comprehensive Income & Expenditure Statement
	£000	£000	£000	£000	£000
Portfolios:					
Children & Families	32,415	0	32,415	1,735	34,150
Culture Leisure and Sport	4,034	0	4,034	4,001	8,035
Education	3,419	0	3,419	12,540	15,959
Environment & Community Safety	13,639	0	13,639	2,123	15,762
Governance & Audit & Standards	328	0	328	62	390
Adult Social Care & Public Health	40,985	0	40,985	2,100	43,085
Housing	2,672	113	2,785	911	3,696
Leader	154	0	154	13	167
Licensing	(198)	0	(198)	48	(150)
Planning, Regeneration & Economic Development	(13,933)	11,901	(2,032)	3,280	1,248
Planning, Regeneration & Economic Development - Port Resources	(7,228)	210	(7,018)	3,590	(3,428)
Traffic & Transportation	14,138	0	14,138	4,875	19,013
	108,908	12,224	121,132	41,050	162,182
Non-portfolio - HRA	(1,600)	0	(1,600)	25,193	23,593
Non-portfolio - Other	34,555	0	34,555	(26,086)	8,469
Net Cost of Services	141,863	12,224	154,087	40,157	194,244
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	(1,370)	0	(1,370)	1,828	458
Financing & Investment Income & Expenditure	21,887	(12,224)	9,663	9,290	18,953
Taxation & Non-specific Grant Income & Expenditure	(176,324)	0	(176,324)	(27,904)	(204,228)
	(155,807)	(12,224)	(168,031)	(16,786)	(184,817)
(Surplus)/Deficit on Provision of Services	(13,944)	0	(13,944)	23,371	9,427

The first column of the Expenditure and Funding Analysis above 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.

	Revised Cash Limit £000	Actual Net Expenditure £000	Variance £000	Variance %
Children & Families	24,902	32,415	7,513	30.2
Culture, Leisure & Sport	4,102	4,034	(68)	(1.7)
Education #	4,294	3,419	(875)	(20.4)
Environment & Community Safety	14,400	13,639	(761)	(5.3)
Governance & Audit & Standards	281	328	47	16.7
Adult Social care & Public Health	39,218	40,985	1,767	4.5
Housing General Fund	2,615	2,672	57	2.2
Leader	155	154	(1)	(0.6)
Licensing	(240)	(198)	42	(17.5)
Planning, Regeneration & Economic Development	(13,185)	(13,933)	(748)	5.7
Planning, Regeneration & Economic Development - Port	(6,963)	(7,228)	(265)	3.8
Resources	19,270	18,483	(787)	(4.1)
Traffic & Transportation	14,138	14,138	0	0.0
	<u>102,987</u>	<u>108,908</u>	<u>5,921</u>	<u>5.7</u>

The actual net expenditure for the Education Portfolio includes net income of £1.0m incurred by the governing bodies of schools which is outside of the cash limit. After taking this into account is the Education Portfolio overspent by £0.1m.

Overall portfolios overspent the revised cash limit by £6.9m (excluding expenditure outside the cash limit incurred by the governing bodies of schools) prior to any appropriations to and from portfolio earmarked reserves. The most significant variances over 5% occurred in the Children & Families, Environment & Community Safety, and Planning Regeneration & Economic Development. These variances are explained below.

Children & Families - £7.5m or 30.2% overspent

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

Environment & Community Safety - 0.8m or 5.3% underspent

This underspend mainly relates to waste disposal. The waste disposal contract had a step change saving £0.2m which was not known when the budget was set. The sale of recyclable waste is open to market forces and the Council's contractor placed our materials well achieving incomes in excess of budget by £0.3m.

Planning, Regeneration and Economic Development (excluding the Port and the Local Enterprise Partnership) - £0.7m or 5.7% underspent

£0.2m of this underspend was due to a vacant position within the Economic Growth Team, and on business support activities during the year. In addition the Strategic Projects Team were able to recover more fee income than anticipated and less spend was incurred on feasibility studies.

£0.2m of the under spend was as a result of better than anticipated returns on sites such as Dunsbury Hill and phase 3 of Limberline Industrial Estate. £0.2m of the under spend was due to vacant posts and additional external fee income within the Property Service. There were also delays in planned maintenance activities resulting in a further underspend of £0.1m.

Non Portfolio Other

Other non-portfolio expenditure includes a number of items of which the most significant are expenditure of £5.7m on the annual shortfall contributions to the local government pension scheme, investment of £5.8m in Portico, provision for the repayment of debt of £4.2m and capital expenditure financed from revenue balances of £11.4m.

Some cash limited expenditure is within Financing and Investment rather than the Net Cost of Services as defined by the Accounting Code of Practice. In particular the Property, Regeneration and Economic Development Portfolio includes £8.7m of net income from investment properties and £3.4m 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 reduce net comprehensive income include depreciation and impairments of £55.1m, partly offset by capital grants and contributions of £27.9m and revaluation gains of £16.6m. In addition, the net comprehensive income is further reduced by £15.2m of pension adjustments. These are in respect of the real value of the pension liability increasing as employees become closer to retirement through 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 shown on page 41 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 £13.9m in 2018/19 (£28.0m in 2017/18). This is summarised in the table below.

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account Balance	Housing Revenue Account General Reserve	Total General Balances
	£m	£m	£m	£m	£m
Balance at 31 March 2017	(25.3)	(130.2)	(18.6)	(1.5)	(175.6)
(Increase) / Decrease in 2017/18	1.2	(23.1)	(6.5)	0.4	(28.0)
Balance at 31 March 2018	(24.1)	(153.3)	(25.1)	(1.1)	(203.6)
(Increase) / Decrease in 2018/19	(3.4)	(14.4)	3.5	0.4	(13.9)
Balance at 31 March 2019	(27.5)	(167.7)	(21.6)	(0.7)	(217.5)

Note: Brackets represent surpluses

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.

General Revenue Reserves

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

General Fund - Balance £27.5m (£24.1m in 2017/18)

The City Council's main General Fund Balance increased in the year by £3.4m, 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.

	Schools (General Fund)	Rest of City Council (General Fund)	Total General Fund Balance
	£m	£m	£m
Balance brought forward as at 1st April 2018	(3.5)	(20.6)	(24.1)
Contribution (to) / from Reserves	(1.0)	(2.4)	(3.4)
Balance carried forward as at 1st April 2019	(4.5)	(23.0)	(27.5)

Note: Brackets represent surpluses

The total surplus (or contribution to reserves) of the City Council amounted to £2.4m excluding school balances.

The City Council's Revised Budget for 2018/19 (excluding schools) estimated that the City Council would make a contribution to reserves of £2.4m. 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 £2.4m 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.

Housing Revenue Account General Reserve - Balance £21.6m (£25.1m in 2017/18)

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 £168.5m (£154.4m in 2017/18). The more significant earmarked reserves are described below.

Earmarked for Capital Purposes – Balance £36.2m (£38.7m in 2017/18)

This is a reserve that is maintained as a source of funding for the Capital Programme. The reserve decreased in the year by £2.5m as the amount of the reserve applied to finance capital expenditure exceeded contributions from General Fund Balances.. The balance on this reserve will be required to finance future capital expenditure.

Medium Term Resource Strategy Reserve – Balance £20.8m (£17.5m in 2018/19)

This reserve was created as a means to fund spend to save schemes to facilitate efficiencies and go some way towards addressing the City Council's future years' forecast deficits. It is also used to provide for any redundancy costs associated with such schemes and any other service rationalisation proposals which give rise to on-going savings. £3.3m was added to the reserve in 2018/19. The current balance of £20.8m is largely committed to funding schemes previously approved by the City Council or future anticipated redundancy costs.

Private Finance Initiative – Balance £7.9m (£9.7m in 2018/19)

This reserve accumulates any surplus of Government Grants received in respect of Private Finance Initiative (PFI) schemes over and above the debt financing costs associated with those schemes. Whilst surpluses are realised in the early years of these typically 20-year plus schemes, deficits will arise in the later years. This reserve is maintained to fund those deficits in later years. In the year, the reserve decreased by £1.8m reflecting the net deficit between the Unitary Payments made to the PFI contractor and the PFI Grant, interest and contributions accruing to the reserve.

City Deal Reserves - Balance £24.1m (£23.6m in 2017/18)

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 £0.5m in 2018/19 due to interest transferred into this reserve.

Highways Maintenance Reserve £9.0m (£7.9m in 2017/18)

This reserve is to fund the ongoing maintenance costs of improvements to the highways network. This reserve increased by £1.1m in 2018/19 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 £11.9m (£7.9m in 2018/19)

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

Portfolio Reserves - Balance £7.7m (£9.5m in 2018/19)

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

Other Reserves

Major Repairs Reserve - Balance £11.0m (£1.8m in 2017/18)

This is a statutory reserve which holds cumulative depreciation charged on HRA dwellings. This reserve may only be applied to fund HRA (council housing) capital expenditure or to repay HRA debt. Depreciation on HRA dwellings amounted to £22.0m in 2018/19. £12.8m of this sum was applied to fund HRA capital expenditure leaving a balance of £11.0m.

Capital Receipts Reserve - Balance £15.8m (£13.4m in 2017/18)

This reserve holds capital receipts that the City Council is not required to pay to the Government under the housing capital receipt pooling arrangements. This reserve may be used to finance capital expenditure or to repay debt. This reserve increased by £2.4m in 2018/19 as the amount used to finance capital expenditure exceeded the amounts received as usable capital receipts.

Capital Grants Unapplied - Balance £54.9m (£53.2m in 2017/18)

This reserve holds grants that may only be applied to fund capital expenditure. This reserve increased by £1.7m in 2018/19 as the amount of capital grants received in the year exceeded the amount of capital grants applied to finance capital.

Capital Investment

Capital investment in 2018/19 amounted to £121.5m (£122.4m in 2017/18). The only major items of capital expenditure were the acquisition of commercial properties upon which £31.6m was expended (£12.6m in 2017/18) and major repairs to council dwellings upon which £14.9m was expended (£17.9m in 2017/18).

The City Council has £118.7m available to fund capital expenditure consisting of the General Fund Earmarked Reserve for Capital Purposes £36.2m, the HRA Capital Reserve £0.8m, the Major Repairs Reserve £11.0m, Capital Grants Unapplied £54.9m and the Capital Receipts Reserve £15.8m.

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

- Coastal flood defences £75.3m
- Local Enterprise Partnership £83.3m
- Major repairs to council dwellings £126.1m

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 £67.3m from £126.9m in 2017/18 to £194.2m in 2018/19. The majority of this increase was due to a deficit on the Housing Revenue Account (HRA) of £23.6m in 2018/19 compared to a surplus of £34.4m in 2017/18. The deficit was primarily caused by weakness in the housing market. In 2017/18 the HRA dwelling stock was revalued upwards by £8.2m, but in 2018/19 it was revalued downwards by £40.1m. Although changes in the value of the HRA dwelling stock affect the Council's net worth and are reflected in the CIES, they are reversed out of the revenue account in the Movement in Reserves Statement under regulations so that they do not impact on the HRA General Balances.

Other Operating Expenditure

Net other operating expenditure and income has decreased by £21.7m from net expenditure of £22.2m in 2017/18 to net expenditure of £0.5m in 2018/19. The vast majority of other operating expenditure in 2017/18 related to losses on the disposal of non-current assets of £21.3m. This is because 12 schools transferred to academy trusts in 2017/18. As the schools are transferred to academy trusts for no consideration there was a significant loss on disposal of non-current assets. Only 3 schools transferred to academy trusts in 2018/19.

Financing and Investment Income and Expenditure

Net expenditure on financing and investment activities has increased by £20.7m from net income of £1.7m in 2017/18 to a net expenditure of £19.0m in 2018/19. This consists of net interest charges of £31.7m (£29.3m in 2017/18), the surplus on trading undertakings and operations of £3.4m (£3.0m in 2017/18) and the surplus from investment properties of £9.3m (£27.9m in 2017/18).

The surplus from investment properties fell by £18.6m in 2018/19. This is mainly due to investment properties being revalued upwards by £18.5m in 2017/18 and downwards by £0.4m to 2018/19. Although changes in the value of investment properties affect the Council's net worth and are reflected in the CIES, they are reversed out of the revenue account in the Movement in Reserves Statement under regulations so that they do not impact on General Balances.

Other Comprehensive Income and Expenditure

The Other Comprehensive Income and Expenditure section of the Comprehensive Income and Expenditure Statement consists of movements in the City Council's unusable reserves, principally the Revaluation Reserve and the Pensions Reserve, which affect the City Council's net worth but not its spending ability.

Overall Total Comprehensive Income and Expenditure has improved by £0.9m from a net income of £42.4m in 2017/18 to a net income of £43.3m in 2018/19.

Revaluation Reserve

On the Balance Sheet, gains amounting to £16.6m arising from the revaluation of non-current assets were posted to the Revaluation Reserve in 2018/19 (£23.7m of revaluation gains were posted to the Revaluation Reserve in 2017/18). However, these gains would only be realised by selling the assets.

Pension Liability and Pension Reserve

The pension liability shown on the balance sheet represents the shortfall between the value of the City Council's pension liability and the value of the pension fund assets. The pension fund's actuaries estimate the fund's assets and liabilities on an annual basis in order to enable the City Council to comply with International Financial Reporting Standards. The City Council's contributions to the pension fund are based on a full triennial valuation by the fund's actuaries. Regulations require the City Council's actual contributions to the pension fund to be charged to the General Fund and HRA balances. This is achieved by transferring the difference between the actuarial cost of providing pensions and the City Council's actual contributions from a Pension Reserve to the General Fund and HRA balances. The Pension Reserve therefore mirrors the pension liability and is not cash backed. The Pension Reserve also reflects changes to the pension liability resulting from returns on pension fund assets in excess of that expected, changes in the financial and demographic assumptions used by the actuary and liability experience. The City Council's estimated pension liability net of pension fund assets as at 31 March 2019 was £365.0m which is very significant when compared to the City Council's net worth of £873.6m. The estimated pension liability was £385.9m at 31 March 2018, but decreased by £20.9m in 2018/19 as gains to the pension fund assets exceeded the increase in the pension liabilities.

Other Long Term Liabilities

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

- Long Term Borrowing - £580.5m (£553.0m in 2017/18). Long term borrowing has increased because £36.5m of new borrowing was undertaken, but only £9.0m of maturing debt was repaid.
- Other Long Term Liabilities includes service concessions (including Private Finance Initiative schemes) and debt transferred from Hampshire County Council following local government reorganisation - £89.9m (£90.6m in 2017/18).

The City Council's total long term borrowings are therefore £670.4m (£643.6m in 2017/18). To put this into context, the City Council's long term assets are valued at £1,682.8m (£1,569.1m in 2017/18).

Long Term Assets

The value of the City Council's long term assets has increased slightly by £113.7m from, £1,569.1m at 31 March 2018 to £1,682.8m at 31 March 2019. The majority of this increase related to long term investments of cash which increased by £70.3m from £52.8m at 31 March 2018 to £123.1m at 31 March 2019 as the Council lengthened the duration of its investment portfolio to increase investment returns.

Short Term Debtors

The value of short term debtors has increased slightly by £0.2m from £54.6m at 31 March 2018 to £54.8m at 31 March 2019. Impairment allowances for bad debts increased by £2.1m.

Short Term Creditors

The value of short term creditors decreased by £22.8m from £77.7m at 31 March 2018 to £54.9m at 31 March 2019. The largest cause of this was because at 31 March 2018, the City Council owed the Government £11.8m of Non-Domestic Rates (NDR) taxpayer receipts. In 2018/19 the Council was in 100% retention NDR pool pilot arrangements so there were no NDR taxpayer receipts owed to the Government at 31 March 2019.

Net Worth

The City Council's overall net worth increased by £43.3m in 2018/19 from £830.3m at 31 March 2018 to £873.6m at 31 March 2019 due to the reasons set out in the Comprehensive Income and Expenditure Statement.

The Cash Flow Statement

In year the City Council's cash flows are affected by its borrowings and investments, and movements in its debtors and creditors, i.e. debts collected and settled, in addition to its income and expenditure.

There was an inflow of £35.8m (£27.7m in 2017/18) from the Council's operating activities.

There was an outflow of cash of £48.5m from investing activities in 2018/19. In 2017/18 this was an outflow of £14.8m.

There was an inflow of cash of £17.1m from financing activities in 2018/19. In 2017/18 this was an outflow of £32.1m. The cash inflow from financing activities in 2018/19 was a result of borrowing £36.6m to finance future capital expenditure.

In 2018/19 there was an overall increase in the City Council's cash and cash equivalents of £4.4m from £22.2m as at 31 March 2018 to £26.6m as at 31 March 2019.

The Collection Fund

This statement shows the transactions of the City Council as the billing authority in relation to the collection of Council Tax and Business Rates from taxpayers and the distribution of council tax and business rates to local authorities.

The Collection Fund is intended to break-even but is dependent largely on the robustness of the estimates of the amount of Council Tax and Business Rates due and that will be collected. When the Budget was revised in February 2019 it was anticipated that there would be a £1.9m surplus on Council Tax and a £0.2m surplus on Business Rates, i.e. the fund would have a total surplus of £2.1m. The Budget for 2018/19 was prepared on this basis i.e. that there would be a withdrawal of this surplus of £2.1m during 2019/20.

Council Tax

There was an unplanned increase in the Collection Fund balance relating to Council Tax of £0.4m (i.e. the actual surplus of £2.3m less the budgeted surplus of £1.9m).

Council Tax

There was an unplanned increase in the Collection Fund balance relating to Council Tax of £0.4m (i.e. the actual surplus of £2.3m less the budgeted surplus of £1.9m).

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.

100% Business Rate Retention Pilot

The City Council became 100% Business Rate Pilot in 2018/19 in a pooled arrangement with the Isle of Wight and Southampton City Councils. The arrangement is one where both risks and rewards must be shared across all authorities. The scheme was intended to reduce volatility in the income from Business rates as well as maximise the incentive to grow the Business rate base.

The Councils in the pool retain 50% of Business Rate growth with the remaining 50% being pooled. The pool is then allocated as follows:

- 60% shared out on the basis of need (defined by the Government's current grant funding formula)
- 30% is allocated to a "Growth & Productivity Pot" to be re-invested across the three councils into schemes that generate growth and productivity
- 10% is retained in the pool and held back in the event of future reductions in business rates

In 2019/20 this arrangement will become a 75% Business Rate Retention Pilot following a change in Government policy. Under this arrangement Business Rates growth will be distributed as follows:

- 50% retained by Portsmouth City Council
- 25% pooled with the Isle of Wight and Southampton City Councils
- 25% to the Government

Business Rates

The unplanned increase in the balance relating to Business Rates was £1.5m (i.e. the actual surplus of £1.7m less the budgeted surplus of £0.2m). This is because the Council had over-provided for appeals and bad debts in previous years and was able to release £1.3m of these provisions back into the Collection Fund. This unplanned increase in the balance relating to Business Rates will be distributed under the pooling arrangement.

The Housing Revenue Account (HRA)

Overall the HRA made a deficit of £26.4m in 2018/19. This represents a major deterioration compared with 2017/18 (£29.4m surplus) of £55.8m.

The deficit was primarily caused by weakness in the housing market. In 2017/18 the HRA dwelling stock was revalued upwards by £8.2m, but in 2018/19 it was revalued downwards by £40.1m, ie. a deterioration of £48.3m.

In addition, income from dwelling rents has fallen by £3.6m from £65.4m in 2017/18 to £61.8m in 2018/19 as a consequence of a 1% rent reduction in line with Government guidance, right to buy sales and the decision to decant Horatia and Leamington Houses.

Whilst the HRA made a £26.4m deficit, the accounting arrangements for Local Authorities are such that many of the charges including downward revaluation charges are not passed on to the Council Rent payer in a single year, rather they are reversed in the Movement in Reserves Statement and the charges spread over future years. The combination of all of those adjustments allowed under statute has reduced the £26.4m deficit to £3.5m. This £3.5m decrease in HRA General Balances represents the excess of expenditure over income in 2018/19.

The £3.5m deficit on the HRA after statutory adjustments compares to a revised estimate for a deficit of £0.2m. Therefore the HRA overspent by £3.3m in 2017/18. The majority of this overspend was due to depreciation on Council dwellings being £2.1m higher than the revised budget.

Conclusion

In 2018/19 the City Council has experienced an increase in general reserves (excluding schools) of £2.4m and this represents the extent to which the City Council's in year income has exceeded its in year expenditure. This is in line with the budgeted contribution to reserves of £2.4m.

The surplus on the Collection Fund in respect of Council Tax of £2.3m is £0.4m more than the anticipated surplus of £1.9m reflected within the Budget. The Collection Fund also made an unplanned surplus in respect of Business Rates of £1.5m although it is not currently known how much of this will accrue to Portsmouth under the pooling arrangement. As the Council's actual surplus was in line with its revised budget and the Collection Fund made a larger surplus than the revised budget, this represents an overall improvement in the City Council's overall medium term financial position compared with the revised budget.

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

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 2019.

Signed

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

Expenditure & Funding Analysis

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

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	-	27,173	1,360	28,533
Culture Leisure and Sport	3,899	-	3,899	2,270	6,169
Education	7,687	-	7,687	18,613	26,300
Environment & Community Safety	13,465	-	13,465	2,415	15,880
Governance & Audit & Standards	127	-	127	(1)	126
Adult Social Care & Public Health	41,652	-	41,652	2,210	43,862
Housing	2,652	-	2,652	141	2,793
Leader	125	-	125	50	175
Licensing	(201)	-	(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	-	17,562	4,449	22,011
	10,896	-	10,896	4,448	15,344
	105,082	12,433	117,515	41,354	158,869
Non-portfolio - HRA	(12,150)	-	(12,150)	(22,232)	(34,382)
Non-portfolio - Other	20,006	-	20,006	(17,561)	2,445
Net Cost of Services	112,938	12,433	125,371	1,561	126,932
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	52	-	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)	-	(161,300)	(25,414)	(186,714)
	(140,988)	(12,433)	(153,421)	(12,744)	(166,165)
(Surplus)/Deficit on Provision of Services	(28,050)	-	(28,050)	(11,183)	(39,233)

Note - The other movements column includes investment property and trading income reported internally in Portfolios, which is required by the Code to be included in Other Income & Expenditure.

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)

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

2018/19	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 & Families	32,415	-	32,415	1,735	34,150
Culture Leisure and Sport	4,034	-	4,034	4,001	8,035
Education	3,419	-	3,419	12,540	15,959
Environment & Community Safety	13,639	-	13,639	2,123	15,762
Governance & Audit & Standards	328	-	328	62	390
Adult Social Care & Public Health	40,985	-	40,985	2,100	43,085
Housing	2,672	113	2,785	911	3,696
Leader	154	-	154	13	167
Licensing	(198)	-	(198)	48	(150)
Planning, Regeneration & Economic Development	(13,933)	11,901	(2,032)	3,280	1,248
Planning, Regeneration & Economic Development - Port Resources	(7,228)	210	(7,018)	3,590	(3,428)
Resources	18,483	-	18,483	5,772	24,255
Traffic & Transportation	14,138	-	14,138	4,875	19,013
	108,908	12,224	121,132	41,050	162,182
Non-portfolio - HRA	(1,600)	-	(1,600)	25,193	23,593
Non-portfolio - Other	34,555	-	34,555	(26,086)	8,469
Net Cost of Services	141,863	12,224	154,087	40,157	194,244
Other Income & Expenditure Not Charged to Services but is Chargeable to the General Fund/HRA:					
Other Operating Expenditure	(1,370)	-	(1,370)	1,828	458
Financing & Investment Income & Expenditure	21,887	(12,224)	9,663	9,290	18,953
Taxation & Non-specific Grant Income & Expenditure	(176,324)	-	(176,324)	(27,904)	(204,228)
	(155,807)	(12,224)	(168,031)	(16,786)	(184,817)
(Surplus)/Deficit on Provision of Services	(13,944)	-	(13,944)	23,371	9,427

Note - The other movements column includes investment property and trading income reported internally in Portfolios, which is required by the Code to be included in Other Income & Expenditure.

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

2018/19	General Fund and Earmarked Reserves £000	HRA Reserves £000	Total £000
Opening balances at 1st April	(177,397)	(26,234)	(203,631)
Plus net surplus on in year balance	(17,838)	3,894	(13,944)
Closing balances at 31st March	(195,235)	(22,340)	(217,575)

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the City Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the City Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. These adjustments are detailed in Note 9. The Net Increase / Decrease before Transfers to Earmarked 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
Balance at 31 March 2017 brought forward	(25,258)	(130,243)	(18,610)	(1,470)	0	(13,840)	(54,089)	(243,509)	(544,372)	(787,881)
Movement in reserves during 2017/18										
Deficit or (Surplus) on the provision of services	(9,812)	-	(29,421)	-	-	-	-	(39,233)	-	(39,233)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(3,136)	(3,136)
Total Comprehensive Expenditure and Income	(9,812)	-	(29,421)	-	-	-	-	(39,233)	(3,136)	(42,369)
Adjustments between accounting basis & funding basis under regulations (see note 9)	(12,084)	-	23,262	-	(1,840)	419	932	10,689	(10,689)	-
Net Increase / Decrease before Transfers to Earmarked Reserves	(21,896)	-	(6,159)	-	(1,840)	419	932	(28,544)	(13,825)	(42,369)
Transfers (to) / from Earmarked Reserves (See Note 10)	23,069	(23,069)	(351)	351	-	-	-	-	-	-
Increase / Decrease in Year	1,173	(23,069)	(6,509)	351	(1,840)	419	932	(28,544)	(13,825)	(42,369)
Balance at 31 March 2018 carried forward	(24,085)	(153,312)	(25,119)	(1,119)	(1,840)	(13,421)	(53,157)	(272,053)	(558,197)	(830,250)
Movement in reserves during 2018/19										
Deficit or (Surplus) on the provision of services	(16,968)	-	26,395	-	-	-	-	9,427	-	9,427
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(52,748)	(52,748)
Total Comprehensive Expenditure and Income	(16,968)	-	26,395	-	-	-	-	9,427	(52,748)	(43,321)
Adjustments between accounting basis & funding basis under regulations (see note 9)	(870)	-	(22,501)	-	(9,170)	(2,387)	(1,741)	(36,668)	36,668	-
Net Increase / Decrease before Transfers to Earmarked Reserves	(17,838)	-	3,894	-	(9,170)	(2,387)	(1,741)	(27,241)	(16,080)	(43,321)
Transfers (to) / from Earmarked Reserves (See Note 10)	14,387	(14,387)	(356)	356	-	-	-	-	-	-
Increase / Decrease in Year	(3,452)	(14,387)	3,539	356	(9,170)	(2,387)	(1,741)	(27,241)	(16,080)	(43,321)
Balance at 31 March 2019 carried forward	(27,537)	(167,699)	(21,580)	(763)	(11,010)	(15,808)	(54,898)	(299,294)	(574,277)	(873,571)

Note A

£4.5m of the General Fund Balance at 31st March 2019 (£3.5m at 31st March 2018) 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 2019 includes £14.8m (£11.3m at 31 March 2018) 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.

2017/18			2018/19				
Gross Expenditure	Gross Income	Net Expenditure	Notes	Gross Expenditure	Gross Income	Net Expenditure	
£000	£000	£000		£000	£000	£000	
32,329	(3,796)	28,533	Children & Families	38,941	(4,791)	34,150	
9,656	(3,487)	6,169	Culture Leisure and Sport	11,719	(3,684)	8,035	
117,992	(91,692)	26,300	Education	104,784	(88,825)	15,959	
17,767	(1,886)	15,881	Environment & Community Safety	17,768	(2,006)	15,762	
739	(613)	126	Governance & Audit & Standards	1,007	(617)	390	
89,256	(45,394)	43,862	Health, Wellbeing & Social Care	94,844	(51,759)	43,085	
6,650	(3,857)	2,793	Housing	9,928	(6,232)	3,696	
203	(28)	175	Leader	192	(26)	166	
721	(875)	(154)	Licensing	706	(857)	(151)	
8,135	(5,188)	2,947	Planning, Regeneration & Economic Development	6,546	(5,298)	1,248	
11,223	(16,340)	(5,117)	Planning, Regeneration & Economic Development - Port	12,945	(16,372)	(3,427)	
134,884	(112,874)	22,010	Resources	135,890	(111,635)	24,255	
27,390	(12,046)	15,344	Traffic & Transportation	30,950	(11,936)	19,014	
456,945	(298,076)	158,869		466,220	(304,038)	162,182	
49,045	(83,427)	(34,382)	Non-portfolio - HRA	104,083	(80,490)	23,593	
14,421	(11,976)	2,445	Non-portfolio - Other	14,968	(6,499)	8,469	
520,411	(393,479)	126,932	Cost of Services	585,271	(391,027)	194,244	
24,704	(2,464)	22,240	Other Operating Expenditure	11a	3,457	(2,999)	458
37,503	(39,194)	(1,691)	Financing & Investment Income & Expenditure	11b	42,414	(23,480)	18,954
0	(186,714)	(186,714)	Taxation & Non-specific Grant Income & Expenditure	11c	-	(204,229)	(204,229)
582,618	(621,851)	(39,233)	(Surplus)/Deficit on Provision of Services	631,142	(621,715)	9,427	
Items that will not be reclassified to the (Surplus)/Deficit on Provision of Services							
		(23,697)	(Surplus)/Deficit on Revaluation of PPE Assets			(16,649)	
		20,572	Remeasurement of Net Defined Benefit Liability			(36,099)	
Items that may be reclassified to the (Surplus)/Deficit on Provision of Services							
		(15)	(Surplus)/Deficit on Revaluation of Available for Sale Assets			-	
		(3,140)	Other Comprehensive Income and Expenditure			(52,748)	
		(42,373)	Total Comprehensive Income and Expenditure			(43,321)	

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 2018/19 (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".

31 March 2018 £000	Notes	31 March 2019 £000
1,249,098 Property, Plant & Equipment	12	1,274,112
74,332 Heritage Assets	15	74,959
163,132 Investment Property	16	182,167
1,480 Intangible Assets		1,066
52,835 Long Term Investments		123,107
28,248 Long Term Debtors	19	27,388
1,569,125 Long Term Assets		1,682,799
347,361 Short Term Investments		275,113
298 Inventories		394
54,579 Short Term Debtors	20	54,752
22,233 Cash & Cash Equivalents	21	26,620
424,471 Current Assets		356,879
(12,116) Short Term Borrowing		(13,125)
(77,665) Short Term Creditors	22	(54,907)
(3,159) Other Short Term Liabilities		(3,643)
(30,217) Capital Grant Receipts in Advance	33	(39,954)
(3,116) Provisions	23	(5,206)
(126,273) Current Liabilities		(116,835)
(90,603) Other Long Term Liabilities	24	(89,901)
(5,630) Provisions	23	(12,536)
(552,978) Long Term Borrowing		(580,525)
(385,896) Pension Liability	39	(364,956)
(1,966) Capital Grant Receipts in Advance	33	(1,354)
(1,037,073) Long Term Liabilities		(1,049,273)
830,250 Net Assets		873,571
(272,053) Usable Reserves		(299,294)
(558,197) Unusable Reserves	25	(574,277)
(830,250)		(873,571)

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.

2017/18 £000	Notes	2018/19 £000
39,233 Net surplus or (deficit) on the provision of services		(9,427)
Adjustment to surplus or deficit on the provision of services for noncash 34,727 movements	26a	91,031
Adjust for items included in the net surplus or deficit on the provision of (46,255) services that are investing and financing activities	26a	(45,844)
27,705 Net Cash flows from operating activities		35,760
(14,836) Net Cash flows from Investing Activities	26b	(48,471)
(32,071) Net Cash flows from Financing Activities	26b	17,098
(19,202) Net increase or decrease in cash and cash equivalents		4,387
41,435 Cash and cash equivalents at the beginning of the reporting period		22,233
22,233 Cash and cash equivalents at the end of the reporting period	21	26,620

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 2018/19 financial year and its financial position at 31 March 2019.

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 authority will capitalise borrowing costs incurred while assets are under construction when the costs exceed £3m and the asset is not completed within a single financial year. Provision will be made for the repayment of these costs under the City Council's minimum revenue provision (MRP) for the repayment of debt policy.

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

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

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

Property, plant and equipment are used for service provision.

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

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

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

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

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

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

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

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

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