

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

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

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

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

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

## **Impairment**

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

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

## **Depreciation**

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

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

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

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

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

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

### **Investment Properties**

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

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

### **Heritage Assets**

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

a) Historic Buildings

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

b) Museum Collections

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

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

c) Archives

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

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

**Revenue Expenditure Funded from Capital under Statute**

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

**Government Grants**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the City Council satisfies the conditions of entitlement to the grants / contribution, there is reasonable assurance that the monies will be received, and the expenditure for which the grant has been given has been incurred. Conditions are stipulations that specify how a grant must be used and require repayment of the grant if the conditions are not met.

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

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

### **Community Infrastructure Levy**

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

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

### **Cash Equivalents**

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

### **Provisions**

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

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

## **Reserves**

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

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

## **Leases**

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

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

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

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

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

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

### **c) Operating Leases**

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

## **Support Services & Overheads**

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

## **Employee Benefits Payable during Employment**

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

## **Retirement Benefits**

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

All three schemes provide defined benefits to members (retirement lump sums and pensions). Further details of the pension schemes that the City Council participates in are provided in notes 39 and 40.

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

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

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

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

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

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

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

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

### **Value Added Tax**

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

### **Financial Liabilities**

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

### **Financial assets**

Financial assets are classified based on the classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The City Council has financial assets measured at amortised cost, FVPL and FVOCI.

### **Financial Assets Measured at Amortised Cost**

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

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

### **Expected Credit Loss Model**

The authority recognises expected losses on all of its financial assets held at amortised cost (or where relevant (FVOCI), either on a 12 month or lifetime basis. The expected credit loss model applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

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

These financial assets consist of structured notes where the value of the note is determined by stock market indices. Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes party to the contractual provision of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets is professionally determined by Barclays Bank.

### **Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)**

The Council holds equity instruments in Portico Shipping Limited (formerly MMD (Shipping Services) Limited), Hampshire Community Bank Holding Limited, and Victory Energy Supply Limited. These equity instruments are not held for trading and the City Council has elected to account for these instruments as "fair value through other comprehensive income" rather than "fair value through profit or loss". This means that gains and losses in the fair value of these instruments will not be debited or credited to General Fund balances until the instruments are sold.

### **Maintained Schools**

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

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

Academy schools receive their funding through the Government and the City Council has transferred the land and buildings that these schools occupy through a long leasehold agreement.



Therefore the income, expenditure, assets, liabilities and reserves of academies are excluded from the City Council's accounts.

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

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

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

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

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

## **2. Accounting Standards Issued but not yet Adopted**

The following accounting standards have been issued and will be adopted by the 2018/19 Code of Practice on Local Authority Accounting:

- Amendments to IAS 40 Investment Property: Transfer of Investment Property
- Annual Improvements to IFRS 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

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

### **3. Critical Judgements in Applying Accounting Policies**

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the City Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the City Council might be impaired as a result of the need to close facilities and reduce levels of service provision.
- The City Council is deemed to control the services provided under outsourcing agreements for Milton Cross School, learning disability facilities, and highways maintenance, and also to control the residual value of the assets at the end of the agreements. The value of these assets as at 31 March 2019 was £122.5m (£115.8m at 31 March 2018). The City Council also provides its Waste Disposal service through Project Integra which is a partnership with Hampshire County Council and Southampton City Council. The Councils are deemed to control services which have been outsourced by Project Integra and to control the value of the assets at the end of the agreements. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the assets, including Portsmouth City Council's share of the waste disposal assets, (valued at £8.6m as at 31 March 2019 (£9.3m at 31 March 2018)) are recognised as Property, Plant and Equipment on the City Council's balance sheet.
- The City Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. Where earning rentals is an outcome of a regeneration policy or providing facilities on out of town housing estates, the properties concerned are accounted for as property, plant and equipment rather than investment property. The classification determines the valuation method used and whether depreciation and impairments are charged to the cost of services.

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

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

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

#### **4. Assumptions made on Sources of Estimated Uncertainty**

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p><b>Fair Value Measurements</b></p>	<p>When the fair value of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the City Council's assets and liabilities.</p> <p>Where level 1 inputs are not available, the City Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value. For example; for investment properties, Royal Institute of Chartered Surveyors (RICS) qualified staff from the Property &amp; Housing Service.</p>	<p>The City Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties.</p> <p>The significant unobservable inputs used in the measurement of fair value include; management assumptions regarding rent growth, vacancy levels and discount rates (adjusted for regional variations).</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties.</p>
<p><b>Pensions Liability</b></p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the City Council with expert advice about the assumptions to be applied.</p>	<p>The City Council's net pension liability is £365m. The effects on the net pension liability of changes in individual assumptions can be measured. However; the assumptions interact in complex ways.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Arrears</b>	<p>The City Council's balance sheet contains significant debtor balances. An allowance is made for impairments. However in the current economic climate it is not certain that the allowance is sufficient. For example, in calculating the impairment for doubtful debts for sundry debtors the City Council had a balance in the accounts receivable system of £14.2m, of which £3.5m (25%) was beyond 60 days past its due date.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £1.3m to set aside as an allowance for sundry debtors alone.</p>
<b>Non Domestic Rates</b>	<p>The City Council is in a business rate pool with the Isle of Wight and Southampton City Councils which retains 100% of the non-domestic rates collected. The amounts of non-domestic rates collected is affected by appeals, both lodged and potential appeals that have yet to be lodged, against the rateable values of non-domestic properties.</p> <p>Owing to the 2017 revaluation a new set of appeals are expected across the rating list. In the absence of more meaningful information, we have used the 4.7% figure that Central Government have assumed will be the national decline in rateable values from appeals.</p> <p>On this basis the Council has made a provision of £13.4m in 2018/19.</p>	<p>The effects on non-domestic rate income of changes in individual assumptions can be measured. However, the assumptions interact with each other.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p><b>Inseparable Service Concessions Including Private Finance Initiative (PFI) Schemes</b></p>	<p>The City Council has two inseparable service concession arrangements to provide highways maintenance and waste collection services. Under these arrangements the City Council paid £26.2m in 2018/19 for highways maintenance and £5.8m waste disposal. These arrangements gave rise to estimated liabilities at 31 March 2019 of £45.1m for highways maintenance and £6.2m for waste disposal. The payments made by the City Council under these arrangements cover operating and maintenance costs, lifecycle replacement costs, and the interest and principal repayment costs associated with the provision of assets. Under these arrangements the City Council does not know how much money has been spent on each of these elements and consequently they have to be estimated.</p>	<p>Although the overall costs of these arrangements are known the effect of these arrangements on the City Council's surplus on the provision of services, its capital investment, its long term liabilities, its reserves and its net assets are all estimated.</p>

## 5. Material Items of Income and Expense

The profitability of the International Port is dependent upon the continued use of the ferry port by two main customers, namely Brittany Ferries and Condor Ferries. Operator agreements are in place with these companies which makes provision for minimum guaranteed levels of income; this offers some degree of protection to the annual stream of income received by the port. Annual turnover of the port amounts to £16.4m.

## 6. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Director of Finance & Information Technology (Section 151 Officer) on 31 May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## 7. Notes to the Expenditure and Funding Analysis

### (a) Adjustments Between Funding and Accounting Basis

While the Expenditure and Funding Analysis provides a reconciliation of the adjustments between the City Council's financial performance under the funding position and the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement, the following note highlights the material areas included in the adjustments between the accounting and funding basis column of the Expenditure and Funding Analysis.

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

Adjustments from GF/HRA to arrive at CIES amounts				
2018/19	Adjustments for Capital Purposes (1)	Net Changes for Pension Adjustments (2)	Other Differences (3)	Total Adjustments
	£000	£000	£000	£000
Portfolios:				
Children & Families	292	1,521	(78)	1,735
Culture Leisure and Sport	3,550	457	(6)	4,001
Education	9,960	2,969	(389)	12,540
Environment & Community Safety	1,845	294	(16)	2,123
Governance & Audit & Standards	10	56	(4)	62
Adult Social Care & Public Health	361	1,852	(113)	2,100
Housing	753	178	(20)	911
Leader	6	8	(1)	13
Licensing	4	45	(1)	48
Planning, Regeneration & Economic Development	2,873	420	(13)	3,280
Planning, Regeneration & Economic Development - Port Resources	3,211	400	(21)	3,590
Traffic & Transportation	3,319	2,553	(100)	5,772
	4,380	509	(14)	4,875
	30,564	11,262	(776)	41,050
Non-portfolio - HRA	24,682	857	(346)	25,193
Non-portfolio - Other	(16,244)	(6,722)	(3,120)	(26,086)
<b>Net Cost of Services</b>	<b>39,002</b>	<b>5,397</b>	<b>(4,242)</b>	<b>40,157</b>
Other Income & Expenditure from the Funding Analysis	(28,360)	9,762	1,812	(16,786)
<b>Difference between GF/HRA (surplus)/deficit and CIES (surplus)/deficit</b>	<b>10,642</b>	<b>15,159</b>	<b>(2,430)</b>	<b>23,371</b>

Note (1) - Adjustments for Capital Purposes:

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

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

Note (2) - Net Change for Pensions Adjustments:

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

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



Note (3) - Other Differences:

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

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

## (b) Segmental Income

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

2017/18		2018/19
Income from Services £000		Income from Services £000
	<b>Portfolios:</b>	
(636)	Children and Families	(729)
(6,667)	Education	(6,437)
(3,179)	Culture Leisure & Sport	(3,425)
(1,613)	Environment & Community Safety	(1,464)
(613)	Governance & Audit & Standards	(617)
(22,723)	Health, Wellbeing & Social Care	(27,096)
(1,513)	Housing	(2,059)
(28)	Leader	(21)
(875)	Licensing	(857)
(19,247)	Planning, Regeneration & Economic Development	(20,555)
(16,538)	Planning, Regeneration & Economic Development - Port	(16,581)
(13,011)	Resources	(13,714)
(12,001)	Traffic & Transportation	(11,506)
<u>(98,644)</u>		<u>(105,061)</u>
(83,426)	Housing Revenue Account	(80,489)
(32)	Other	(135)
<u>(182,102)</u>		<u>(185,685)</u>

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

## 8. Expenditure and Income Analysed by Nature

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

	2017/18 £000	2018/19 £000
<b><u>Expenditure</u></b>		
Employee benefits expenses	186,801	192,755
Other services expenses	340,499	333,936
Depreciation, amortisation, impairment, revaluations	2,206	68,652
Interest payments	25,677	28,154
Precepts and levies	78	41
Payments to Housing Capital Receipts Pool	927	927
Loss on the disposal of assets	23,579	2,181
Investment property expenditure and decreases in fair value	757	1,878
Trading expenses	2,094	2,618
<b>Total expenditure</b>	<b><u>582,618</u></b>	<b><u>631,142</u></b>
<b><u>Income</u></b>		
Fees, charges and other service income	(164,911)	(169,063)
Surplus on associates and joint ventures	(145)	(150)
Interest and investment income	(5,375)	(6,180)
Income from council tax and non-domestic rates	(120,802)	(159,360)
Government grants and contributions	(294,480)	(267,519)
Gain on disposal of assets	(2,319)	(2,164)
Investment property income and increases in fair value	(28,693)	(11,222)
Trading income	(5,126)	(6,057)
<b>Total Income</b>	<b><u>(621,851)</u></b>	<b><u>(621,715)</u></b>
<b>Surplus or Deficit on the Provision of Services</b>	<b><u>(39,233)</u></b>	<b><u>9,427</u></b>

Following the reporting requirements stipulated by the Code on accounting for schools, the City Council's single entity financial statements include income and expenditure of the City Council's maintained schools.

Note - Support service charges have no longer been shown as a separate line in the above note as they are not mutually exclusive and instead form part of other lines in the note. Support service charges for 2017/18 totalled £24.8m and decreased to £22.6m in 2018/19 as a result of decreases in capital charges for support services; due primarily to revaluations of assets held by the respective services.

## **9. Adjustments of Accounting and Funding Basis under Regulations**

This note details the adjustments that are made in the total comprehensive income and expenditure statement recognised by the City Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the City Council to meet future revenue and capital expenditure. The following sets out a description of the reserves that the adjustments are made against.

### **General Fund**

The General Fund is the statutory fund into which all the receipts of the City Council are required to be paid and out of which all liabilities of the City Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the City Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the City Council is required to recover) at the end of the financial year. The balance is not available to be applied to funding Housing Revenue Account (HRA) services.

### **Earmarked General Fund Reserves**

Earmarked General Fund reserves hold funds which the City Council has decided to set aside for specific Non HRA purposes.

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

The HRA Balance reflects the statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the City Council's landlord function.

### **Earmarked HRA Reserves**

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

### **Major Repairs Reserve**

The City Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

### **Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

### **Capital Grants Unapplied**

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the City Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

The following tables show the adjustments made between reserves.

2017/18	Usable Reserves				
	General Housing Fund Revenue Balance £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments to the Revenue Resources</b>					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement (CIES) are different from the revenue for the year calculated in accordance with statutory requirements:					
- Pensions costs (transferred to (or from) the Pensions Reserve)	(8,167)	(2,316)			
- Reversal of entries included in the Surplus (or Deficit) on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(37,124)	19,030	(19,448)		(12,491)
- Other Adjustments to Revenue Resources	(878)	230			
<b>Total Adjustment to Revenue Resources</b>	<b>(46,169)</b>	<b>16,944</b>	<b>(19,448)</b>	<b>-</b>	<b>(12,491)</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	23	5,833		(5,856)	
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(927)			927	
Capital grants and contributions unapplied credited to the CIES	25,279	134			(25,413)
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	4,568			391	
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	5,236	351			
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>34,179</b>	<b>6,318</b>	<b>-</b>	<b>(4,538)</b>	<b>(25,413)</b>
<b>Adjustments to Capital Resources</b>					
Use of Major Repairs Reserve to finance capital expenditure			17,608		
Application of capital receipts to finance capital expenditure				7,451	
Application of capital grants to finance capital expenditure					38,835
Application of City Deal Grant to finance capital expenditure					
Other adjustments to capital resources	(94)			(2,494)	
<b>Total Adjustments to Capital Resources</b>	<b>(94)</b>	<b>-</b>	<b>17,608</b>	<b>4,957</b>	<b>38,835</b>
<b>Total Adjustments</b>	<b>(12,084)</b>	<b>23,262</b>	<b>(1,840)</b>	<b>419</b>	<b>931</b>

2018/19	Usable Reserves				
	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
<b>Adjustments to the Revenue Resources</b>					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement (CIES) are different from the revenue for the year calculated in accordance with statutory requirements:					
- Pensions costs (transferred to (or from) the Pensions Reserve)	(12,619)	(2,540)			
- Reversal of entries included in the Surplus (or Deficit) on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(32,273)	(27,969)	(22,002)		(10,439)
- Other Adjustments to Revenue Resources	3,110	345			
<b>Total Adjustment to Revenue Resources</b>	<b>(41,782)</b>	<b>(30,164)</b>	<b>(22,002)</b>	<b>-</b>	<b>(10,439)</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	598	5,107		(5,705)	
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(927)			927	
Capital grants and contributions unapplied credited to the CIES	25,694	2,210			(27,900)
Statutory Provision for the repayment of debt (transfer from the Capital Adjustment Account)	4,219			512	
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	11,428	346			
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>41,012</b>	<b>7,663</b>	<b>-</b>	<b>(4,266)</b>	<b>(27,900)</b>
<b>Adjustments to Capital Resources</b>					
Use of Major Repairs Reserve to finance capital expenditure			12,832		
Application of capital receipts to finance capital expenditure				4,021	
Application of capital grants to finance capital expenditure					36,598
Application of City Deal Grant to finance capital expenditure					
Other adjustments to capital resources	(100)			(2,142)	
<b>Total Adjustments to Capital Resources</b>	<b>(100)</b>	<b>-</b>	<b>12,832</b>	<b>1,879</b>	<b>36,598</b>
<b>Total Adjustments</b>	<b>(870)</b>	<b>(22,501)</b>	<b>(9,170)</b>	<b>(2,387)</b>	<b>(1,741)</b>

## 10. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19. The "Other" balance relates to reserves that have in-year transactions or balances less than £7m and are held for a variety of reasons.

	Balance at 1 April 2017 £000	Transfers (to) / from 2016/17 £000	Balance at 31 March 2018 £000	Transfers (to) / from 2017/18 £000	Balance at 31 March 2018 £000
<b>General Fund</b>					
Earmarked for Capital Purposes	(35,052)	(3,717)	(38,769)	2,538	(36,231)
Medium Term Resource Strategy Reserve	(16,150)	(1,362)	(17,512)	(3,285)	(20,797)
Private Finance Initiative Reserve	(10,674)	1,005	(9,669)	1,786	(7,883)
City Deal Reserves	(23,255)	(370)	(23,625)	(512)	(24,137)
Highways Maintenance Reserve	(5,995)	(1,931)	(7,926)	(1,100)	(9,026)
Investment Reserve	-	(7,891)	(7,891)	(3,990)	(11,881)
Portfolio Reserves	(7,990)	(1,496)	(9,486)	1,750	(7,736)
Other	(31,127)	(7,307)	(38,434)	(11,575)	(50,009)
	<b>(130,243)</b>	<b>(23,069)</b>	<b>(153,312)</b>	<b>(14,387)</b>	<b>(167,699)</b>
<b>Housing Revenue Account Capital Reserve</b>	(1,470)	351	(1,119)	356	(763)
<b>Total</b>	<b>(131,713)</b>	<b>(22,718)</b>	<b>(154,431)</b>	<b>(14,031)</b>	<b>(168,462)</b>

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

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

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

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

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

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

**Portfolio Reserves** - These reserves provide a mechanism to allow underspending by portfolios in 2018/19 and previous years to be carried forward into 2019/20.



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

### (a) Other Operating Expenditure

2017/18 £000		2018/19 £000
21,261	(Gain)/Loss on the disposal of Non-Current Assets	17
979	Miscellaneous Operating Income and Expenditure	441
<b>22,240</b>		<b>458</b>

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

2017/18 £000			2018/19 £000
25,677	Interest payable and similar charges		25,402
(5,375)	Interest & investment income		(3,427)
8,975	Net interest on defined benefit (asset)/liability	39	9,762
(3,033)	(Surplus)/deficit on trading undertakings & other operations		(3,439)
(27,935)	Income, expenditure and changes in the fair value of investment properties	16	(9,344)
<b>(1,691)</b>			<b>18,954</b>

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

2017/18 £000			2018/19 £000
(71,507)	Income from council tax	33	(76,374)
(40,498)	Non Ring Fenced government grants	33	(16,964)
(25,414)	Capital grants & contributions	33	(27,904)
(49,295)	Retained non-domestic rates	33	(82,987)
<b>(186,714)</b>			<b>(204,229)</b>

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

### Movements on Balances: Comparative Movements in 2017/18

	PPE							Asset Categories £000	Combined Total £000
	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Buildings - Surplus £000	Under Construction £000		
<b>Cost or Valuation</b>									
At 1st April 2017	633,338	321,719	50,104	219,690	2,416	7,085	99,262	1,334,214	1,551,122
Opening adjustment	-	-	-	-	-	-	-	-	475
Revised as at 1st April 201	633,338	321,719	50,104	219,690	2,416	7,085	99,262	1,334,214	1,551,537
Additions	1,723	-	10,133	-	-	-	91,751	103,607	-
Revaluation increases(decreases) to CES and/or Revaluation Reserve	8,154	(5,489)	(817)	-	-	(5,002)	-	(3,154)	25,569
Disposals	(3,630)	(27,406)	-	-	-	-	-	(31,036)	(492)
Reclassifications from Assets Under Construction	31,653	35,326	3,309	24,716	-	-	(95,686)	(1,282)	-
Reclassifications between categories	-	(2,495)	1,678	1,653	-	-	-	836	(836)
<b>At 31st March 2018</b>	<b>671,838</b>	<b>321,655</b>	<b>64,407</b>	<b>245,459</b>	<b>2,416</b>	<b>2,083</b>	<b>95,327</b>	<b>1,403,185</b>	<b>1,649,245</b>
<b>Depreciation and</b>									
At 1st April 2017	(40,381)	(39,407)	(27,407)	(43,155)	387	(291)	-	(150,254)	(156,466)
Opening adjustment	-	-	-	-	-	-	-	-	(475)
Revised as at 1st April 201	(40,381)	(39,407)	(27,407)	(43,155)	387	(291)	-	(150,254)	(156,941)
Depreciation Charge in Year	(19,448)	(9,421)	(4,460)	(5,368)	(7)	(17)	-	(38,721)	(39,402)
Depreciation written out on revaluation	19,329	10,335	220	-	-	1	-	29,885	29,885
Impairment losses(reversals) to CES and/or Revaluation Reserve	-	-	-	-	-	-	-	-	-
Disposals	119	3,826	-	-	-	-	-	3,945	4,439
Reclassifications from Assets Under Construction	-	-	-	-	-	-	-	-	-
Reclassifications between categories	-	961	(74)	(6)	-	-	-	241	(241)
Adjustments*	816	-	-	-	-	-	-	816	-
<b>At 31st March 2018</b>	<b>(39,565)</b>	<b>(33,706)</b>	<b>(32,361)</b>	<b>(48,529)</b>	<b>380</b>	<b>(307)</b>	<b>-</b>	<b>(154,088)</b>	<b>(7,115)</b>
<b>Net Book Value</b>									
At 1st April 2017	593,557	282,312	22,697	176,535	2,803	6,794	99,262	1,183,960	1,394,656
At 31st March 2018	632,273	287,949	32,046	196,930	2,796	1,776	95,327	1,249,097	1,488,042

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

**Movements in 2018/19**

	PPE							Other Asset Categories	Combined Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Other Land & Buildings -	Assets Under Construction		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1st April 2018	671,838	321,655	64,407	245,459	2,416	2,083	95,327	246,060	1,649,245
Opening adjustment #	(39,565)	(20,660)	1,441	(1,908)	424	(231)	-	(4,728)	(65,287)
Revised as at 1st April 201	632,273	300,995	65,848	243,551	2,840	1,792	95,327	241,332	1,583,958
Additions	938	1,071	476	-	-	-	76,308	29,194	108,047
Revaluations (increases/decreases) to SDPS and/or Revaluation Reserve	(40,116)	(7,380)	(7)	(4,624)	34	(121)	-	(260)	(52,474)
Disposals	(3,049)	(2,401)	-	-	-	-	-	-	(5,450)
Reclassifications from Assets Under Construction	36,795	18,765	3,130	29,678	-	-	(89,236)	868	-
Reclassifications between categories	-	9,566	-	67	141	-	-	(9,774)	-
<b>At 31st March 2019</b>	<b>626,901</b>	<b>320,616</b>	<b>69,447</b>	<b>268,672</b>	<b>3,015</b>	<b>1,671</b>	<b>82,399</b>	<b>261,360</b>	<b>1,634,081</b>
<b>Accumulated Depreciation and</b>									
At 1st April 2018	(39,565)	(33,706)	(32,361)	(48,529)	380	(307)	-	(7,115)	(161,203)
Opening adjustment #	39,565	20,660	(1,441)	1,908	(424)	281	-	4,728	65,287
Revised as at 1st April 201	-	(13,046)	(33,802)	(46,621)	(44)	(16)	-	(2,387)	(95,916)
Depreciation Charge in Year	(21,925)	(10,068)	(3,770)	(5,659)	(8)	(17)	-	(809)	(42,316)
Depreciation written out on revaluation	21,619	10,457	-	3,750	41	33	-	29	36,129
Impairment losses (reversals) to SDPS and/or Revaluation Reserve	-	-	-	-	-	-	-	-	-
Disposals	106	220	-	-	-	-	-	-	326
Reclassifications from Assets Under Construction	-	-	-	-	-	-	-	-	-
Reclassifications between categories	-	7	-	(7)	-	-	-	-	-
<b>At 31st March 2019</b>	<b>-</b>	<b>(12,450)</b>	<b>(37,572)</b>	<b>(48,577)</b>	<b>(11)</b>	<b>-</b>	<b>-</b>	<b>(3,167)</b>	<b>(101,777)</b>
<b>Net Book Value</b>									
At 1st April 2018	632,273	287,949	32,046	196,930	2,796	1,776	95,327	238,945	1,488,042
At 31st March 2019	626,901	308,166	31,875	220,095	3,004	1,671	82,399	258,193	1,532,304

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

# The opening adjustments to Gross Book Value and to Accumulated Depreciation & Impairment are to bring the figures in the note in line with the Fixed Asset Register, so that accumulated revaluations to income & expenditure are correctly reflected against gross book value.

Tangible non-current assets have been valued as follows:

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

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

A five year rolling programme of revaluations is undertaken for all assets except council dwellings, which are revalued annually. All valuations have been carried out by Royal Institute of Chartered Surveyors (RICS) qualified staff from the City Council's Property and Housing Service in accordance with the practice statements and guidance notes contained in the RICS manual of Appraisal and Valuation 5th Edition 2003 (as amended). The assets are valued as at 31 March 2019.

The beacon principle has been used to value the HRA council housing stock. A sample property "the Beacon" is selected from a group of properties that are of similar design, age, type or construction and a detailed valuation carried out. The valuation is then applied to all properties in that group. The basis of valuation is Existing Use Value for Social Housing (EUV-SH). EUV-SH uses the vacant possession value of the dwelling as a starting point, on the assumption that each property is to be used as residential accommodation that will be occupied by a secure tenant. This figure is then amended by a regional adjustment factor of 33% to reflect the fact that sitting tenants enjoy lower than open market rents and rights, including Right to Buy. HRA non-dwelling properties use the existing use value (EUV) method of valuation for non-specialist operational properties, and depreciated replacement cost (DRC) for specialist operational properties. In 2018/19 £17.8m of revaluations down were charged to the Surplus/Deficit on the Provision of Services (in 2017/18 £28.3m was reversed against previous revaluations down).

At 31 March 2019, Stamshaw Infant School with a net book value of £1.147m had applied to become an Academy in early 2019/20.

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

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Investment Property	Held for Sale	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2018/19	626,901	140,958	-	-	-	1,671	182,167	-	-	951,697
2017/18	-	97,017	-	-	-	-	-	-	-	97,017
2016/17	-	52,167	-	-	-	-	-	-	-	52,167
2015/16	-	15,202	-	-	-	-	-	-	-	15,202
2014/15	-	2,822	-	-	-	-	-	-	-	2,822
Valued at Historic Cost	-	-	31,875	220,095	3,004	-	-	-	82,399	337,373
	<b>626,901</b>	<b>308,166</b>	<b>31,875</b>	<b>220,095</b>	<b>3,004</b>	<b>1,671</b>	<b>182,167</b>	<b>0</b>	<b>82,399</b>	<b>1,456,278</b>

#### Depreciation

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

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

#### a) Council Dwellings

Based on useful lives calculated on a componentised basis.

#### b) Buildings

Fifty years unless assessed by the valuer for a greater or lesser period.

#### c) Vehicles, Plant & Machinery

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

#### d) IT Equipment

Five years.

#### e) Infrastructure assets

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

## 14. Significant commitments for future capital expenditure

### a) Future Approved Capital Programme

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

Capital Programme	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Later £000
Children's Social Care	135	37	37	37	37	-
Culture, Leisure & Sport	3,841	3,040	-	-	-	-
Education	14,250	13,552	2,880	272	-	-
Environment & Community Safety	19,259	18,470	19,693	16,125	12,042	17,090
Health & Social Care (Adults Services)	2,667	5,658	2,820	210	-	-
Planning, Regeneration & Economic Development	108,796	57,810	-	-	-	122
Commercial Port	10,351	10,200	2,000	2,000	-	-
Resources	21,481	11,903	-	-	-	-
Traffic & Transportation	11,509	2,686	1,965	4,008	5,935	19,932
Housing Portfolio (HIP)	33,428	33,214	28,349	30,094	32,159	32,129
<b>Total Capital Programme</b>	<b>225,717</b>	<b>156,570</b>	<b>57,744</b>	<b>52,746</b>	<b>50,173</b>	<b>69,273</b>

### b) Contractual Commitments

The City Council was legally committed to the following significant capital contracts at 31 March 2019:

Capital Contracts	£000
Portsmouth Academy - Construction & Refurbishments of School Buildings	4,198
Hampshire Community Bank	2,500

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

## 15. Heritage Assets

	Heritage Assets 2017-18 £000	Heritage Assets 2018-19 £000
<b>Cost or Valuation as at 1st April</b>	<b>64,240</b>	<b>75,322</b>
Additions / Donations	-	-
Revaluation increases/(decreases) to CIES and/or Revaluation Reserve	11,081	164
Disposals	-	(103)
Reclassifications	1	437
At 31st March	<u>75,322</u>	<u>75,820</u>
<b>Depreciation and Impairment as at 1st April</b>	<b>(984)</b>	<b>(990)</b>
Depreciation Charge in Year:	(6)	(3)
Depreciation written out on revaluation:	-	29
Impairment losses/(reversals) to CIES and/or Revaluation Reserve	-	-
Disposals	-	103
Reclassifications	-	-
At 31st March	<u>(990)</u>	<u>(861)</u>
<b>Net Book Value</b>		
Museum Collections	15,420	15,434
Historic Buildings	30,031	40,802
Archives	11,843	11,843
Others	5,962	6,253
<b>At 1st April</b>	<u><b>63,256</b></u>	<u><b>74,332</b></u>
<b>Net Book Value</b>		
Museum Collections	15,434	15,434
Historic Buildings	40,802	41,429
Archives	11,843	11,843
Others	6,253	6,253
<b>At 31st March</b>	<u><b>74,332</b></u>	<u><b>74,959</b></u>

### **a) Historic Buildings**

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

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

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

### **b) Museum Collection**

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

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

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

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

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

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

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



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

### c) Archives

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

## 16. Investment Properties

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

<b>Investment Properties</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
Gross Income from Investment Property	(10,285)	(10,825)
Gross Expenditure relating to Investment Property	843	1,097
Net Income from Investment Property	<u>(9,442)</u>	<u>(9,728)</u>

Note - This disclosure note has restated the previous year so that it is shown gross.

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

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

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

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>		
Balance at 01/04/2018	146,022	163,848
Opening Adjustments	-	(716)
Revised Balance at 01/04/2018	146,022	163,132
Additions - Purchases	-	29,194
Revaluation increases/(decreases) to SDPS and/or Revaluation Reserve	18,495	(385)
Disposals	-	-
Reclassifications from Investment Property Assets under Construction	167	-
Reclassifications from/(to) other asset categories	(836)	(9,774)
<b>Balance at 31/03/2019</b>	<b>163,848</b>	<b>182,167</b>
<b>Depreciation and Impairment</b>		
Balance at 01/04/2018	(475)	(716)
Opening Adjustments	-	716
Revised Balance at 01/04/2018	(475)	-
Depreciation Charge in Year	-	-
Depreciation written out on revaluation	-	-
Impairment losses/(reversals) to SDPS and/or Revaluation Reserve	-	-
Disposals	-	-
Reclassifications	(241)	-
<b>Balance at 31/03/2019</b>	<b>(716)</b>	<b>-</b>
<b>Net Book Value at start of year</b>	<b>145,547</b>	<b>163,132</b>
<b>Net Book Value at end of year</b>	<b>163,132</b>	<b>182,167</b>

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

## Fair Value Hierarchy

Details of the City Council's investment properties valued over £50,000 and information about the fair value hierarchy as at 31 March 2019 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2019 £000
Commercial Properties	-	173,882	-	173,882
Other Investment Properties	-	8,285	-	8,285
<b>Total</b>	<b>-</b>	<b>182,167</b>	<b>-</b>	<b>182,167</b>

### Transfers between Levels of the Fair Value Hierarchy

There were no transfers between levels 1 and 2 during the year.

### Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

#### Significant Observable Inputs - Level 2

The fair value for commercial and other investment properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

### Highest and Best Use of Investment Properties

In estimating the fair value of the City Council's investment properties, the highest and best use of the properties is their current use.

### Additions to Investment Properties

There were three Investment Properties purchased during 2018/19 at a cost of £29m.

### Changes in Valuation Techniques

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

## 17. Financial Instruments

### a) Financial Instrument Balances

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument in another entity. Financial instrument balances exclude statutory transactions such as taxation and benefits as these are not the result of a contract. Therefore many lines in the balance sheet, such as debtors and creditors, will include financial instruments, but also include other balances that are not financial instruments.

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

	Long-Term		Current		Total
	31 March	31 March	31 March	31 March	31 March
	2018	2019	2018	2019	2019
	£000	£000	£000	£000	£000
<u>Financial Assets</u>					
Amortised Cost - Investments	40,251	90,080	348,018	275,113	365,193
Amortised Cost - Debtors	28,248	27,388	52,842	42,502	69,890
Amortised Cost - Cash Equivalents			21,280	25,693	25,693
Total financial assets carried at amortised cost	68,499	117,468	422,140	343,309	460,776
Fair value through profit and loss - Investments	4,938	25,221			25,221
Fair value through other comprehensive income - Designated equity instruments	7,584	7,806			7,806
<b>Total Financial Assets</b>	<b>81,021</b>	<b>150,495</b>	<b>422,140</b>	<b>343,309</b>	<b>493,803</b>
<u>Financial Liabilities</u>					
Amortised Cost - Borrowings	(630,352)	(661,748)	(15,276)	(12,217)	(673,965)
Amortised Cost - Creditors			(57,749)	(49,185)	(49,185)
<b>Total Financial Liabilities</b>	<b>(630,352)</b>	<b>(661,748)</b>	<b>(73,025)</b>	<b>(61,401)</b>	<b>(723,150)</b>

The note below shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting and the re-measurements of carrying amounts then required.

	Carrying amount brought forward at 1 April 2018	Amortised cost	Fair value through profit and loss	Fair value through other comprehensive income
	£000	£000	£000	£000
<b>Previous classifications</b>				
Loans and receivables	495,638	490,638	5,000	
Available for Sale	7,584			7,584
<b>Reclassified amounts at 1 April 2018</b>	<b>503,222</b>	<b>490,638</b>	<b>5,000</b>	<b>7,584</b>
Remeasurements at 1 April 2018			(62)	
<b>Remeasured carrying amounts at 1 April 2018</b>	<b>503,222</b>	<b>490,638</b>	<b>4,938</b>	<b>7,584</b>
Impact on General Fund Balance			62	

#### Application of classification requirements at 1 April 2018

At 31 March 2018 the Council was holding financial assets with a carrying value of £495.6m as loans and receivables. On 1 April 2018 most of these financial assets were reclassified as amortised cost as they were being held as part of a business model to collect contractual cash flows.

The following judgements were made in reclassifying financial instruments at 1 April 2018:

- At 31 March 2018 £8m was invested in corporate bonds that formed a bespoke portfolio that was being externally managed on the Council's behalf by Barclays Bank, and were held as loans and receivables. As these bonds are being held as part of a business model to collect contractual cash flow, they were reclassified as amortised cost.
- At 31 March 2018 the Council held an auto callable structured note which contained a derivative based on developed market equity indices. This structured note formed part of loans and receivables and was carried in the City Council's accounts at its purchase price of £5m. As the maturity date of this structured note is determined through the performance of developed equity markets, the cash flows of this structured note are not predetermined. This structured note was therefore reclassified as fair value through profit and loss on 1 April 2018. Financial instruments classified at fair value through profit and loss are carried in the City Council's accounts at their market value. This structured note is tradable and has a market value. The market value of this structured note at 1 April 2018 was £4,938,000; £62,000 less than its purchase price of £5m. This loss has been charged to General Fund balances in the Movement in Reserves Statement. The market value of this structured note at 31 March 2019 was £5,146,500. This subsequent gain has been credited to general Fund balances in the Comprehensive Income and Expenditure Statement.

- At 31 March 2018 the Council held equity shares in MMD (Shipping Services) Limited (now known as Portico), Hampshire Community Bnk, Victory Energy Supply Ltd, and the UK Municipal Bonds Agency Plc. These were held as available for sale financial assets. Under the Code of Practice for Local Authority Accounting the Council has opted to irrevocably reclassify these instruments on 1 April 2018 as measured at fair value through other comprehensive income (FVOCI) on the basis that:
  - These investments fall into the fair value through profit and loss class of assets because contractual terms do not give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding
  - The investments are equity instruments
  - The investments are not held for trading

Further details of the instruments that the City Council has opted irrevocably reclassify as measured at fair value through other comprehensive income are detailed below.

<b>Description</b>	<b>Nominal £000</b>	<b>Fair Value £000</b>	<b>Change in fair value during 2018/19 £000</b>
Portico (formerly MMD (Shipping Services) Ltd	2,027	5,056	-
Hampshire Community Bnk	2,500	2,500	-
Victory Energy Supply Limited	100	100	-
UK Municipal Bonds Agency Plc	150	150	-

The above investments are held to meet service objectives of the City Council and none of the above investments paid a dividend in 2018/19.

## b) Financial Instruments Gains / Losses

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

	2017/18		2018/19	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Net (gains) / losses on:				
Financial assets measured at fair value through profit or loss	62		(221)	
Investments in equity instruments designated at fair value through other comprehensive income		(15)		-
Financial assets measured at amortised cost	4,102		3,681	
<b>Total net gains / losses</b>	<b>4,164</b>	<b>(15)</b>	<b>3,460</b>	<b>-</b>
Financial assets measured at amortised cost	(5,152)		(5,749)	
Financial assets measured at fair value through profit or loss	(223)		(440)	
<b>Total Interest Revenue</b>	<b>(5,375)</b>	<b>-</b>	<b>(6,188)</b>	<b>-</b>
<b>Interest Expense</b>	<b>25,676</b>	<b>-</b>	<b>25,399</b>	<b>-</b>

**c) Fair Value of Assets Carried at Fair Value**

Some of the City Council's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

<b>Financial Assets measured at Fair Value</b>				
<b>Recurring fair value measurements</b>	<b>Input level in fair value hierachy</b>	<b>Valuation technique used to measure fair value</b>	<b>As at 31/3/18 £000</b>	<b>As at 31/3/19 £000</b>
<b>Fair Value through Profit and Loss</b>				
Financial instruments classed as fair value through profit and loss	Level 2 (Other significant observable inputs)	Professionally valued by custodian	4,938	25,221
<b>Fair Value through Other Comprehensive Income</b>				
Equity shareholding in Portico Ltd	Level 2 (Other significant observable inputs)	Net Worth	4,834	5,056
Equity shareholding in Hampshire Community Bnk Ltd	Level 2 (Other significant observable inputs)	Purchase price of shares	2,500	2,500
Equity shareholding in Victory Energy Supply Ltd	Level 2 (Other significant observable inputs)	Purchase price of shares	100	100
Equity shareholding in UK Municipal Bonds Agency Plc	Level 2 (Other significant observable inputs)	Purchase price of shares	150	150
<b>Total</b>			<b>7,584</b>	<b>7,806</b>



**d) The Fair Value of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)**

Except for the financial assets carried at fair value (described above), all other financial liabilities and financial assets held by the City Council are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows.

<b>Financial Liabilities Held at Amortised Cost</b>	<b>31 March 2018</b>		<b>31 March 2019</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Borrowing	(565,094)	(788,222)	(607,383)	(842,526)
Service Concessions and Finance Lease	(80,534)	(107,281)	(66,151)	(102,321)
Other Creditors	(57,749)	(57,749)	(49,616)	(49,616)
<b>Total</b>	<b>(703,377)</b>	<b>(953,252)</b>	<b>(723,150)</b>	<b>(994,463)</b>

The fair value shown above represents the cost of settling the City Council's liabilities. To settle most of these liabilities would cost more than the amount of the outstanding principal, i.e. the carrying amount. This is because the City Council would have to pay a premium to its lenders to reflect the difference between the interest payable on the City Council's borrowing and the lower rates pertaining at the current time.

<b>Financial Assets Held at Amortised Cost</b>	<b>31 March 2018</b>		<b>31 March 2019</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investments	413,891	418,012	391,391	379,941
Debtors	81,747	99,964	69,890	89,603
<b>Total</b>	<b>495,638</b>	<b>517,976</b>	<b>461,281</b>	<b>469,544</b>

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

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

	31 March 2018			Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<i>Recurring fair value measurements using:</i>	£000	£000	£000	£000
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
Borrowing	-	(788,222)	-	(788,222)
Service Concessions and Finance Lease Liabilities	-	(107,281)	-	(107,281)
Other creditors	-	(57,749)	-	(57,749)
<b>Total</b>	<b>-</b>	<b>(953,252)</b>	<b>-</b>	<b>(953,252)</b>
<b>Financial Assets</b>				
<i>Financial assets held at amortised cost:</i>				
Investments	-	413,012	-	413,012
Debtors	-	99,964	-	99,964
<b>Total</b>	<b>-</b>	<b>512,976</b>	<b>-</b>	<b>512,976</b>

31 March 2019				
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<i>Recurring fair value measurements using:</i>	£000	£000	£000	£000
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
Borrowing	-	(607,383)	-	(607,383)
Service Concessions and Finance Lease Liabilities	-	(66,151)	-	(66,151)
Other creditors	-	(49,185)	-	(49,185)
<b>Total</b>	<b>-</b>	<b>(722,719)</b>	<b>-</b>	<b>(722,719)</b>
<b>Financial Assets</b>				
<i>Financial assets held at amortised cost:</i>				
Investments	-	362,811	-	362,811
Debtors	-	69,890	-	69,890
<b>Total</b>	<b>-</b>	<b>432,701</b>	<b>-</b>	<b>432,701</b>

The fair values of financial liabilities and financial assets that are not measured at fair value included in the table above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

£779.7m of the fair value of borrowing at 31 March 2019 (£725.5m at 31 March 2018) represents loans from the Public Works Loans Board (PWLB). The fair value of PWLB loans of £779.7m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB redemption interest rates. The difference between the carrying amount and the fair value measures the additional interest that the City Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the City Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB Certainty interest rates. A supplementary measure of the fair value as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £505.9m would be valued at £560.9m. But, if the City Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge, based on the redemption interest rates, for early redemption of £273.8m for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £779.7m.

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

<b>Financial Assets</b>	<b>Financial Liabilities</b>
<ul style="list-style-type: none"> <li>- no early repayment or impairment is recognised</li> <li>- estimated ranges of interest rates at 31 March 2019 of 1.10% to 2.59% for loans receivable, based on new lending rates for equivalent loans at that date</li> <li>- the fair value of trade and other receivables is taken to be invested at the billed amount</li> </ul>	<ul style="list-style-type: none"> <li>- no early repayment is recognised</li> <li>- estimated ranges of interest rates at 31 March 2019 of 1.00% to 2.58% for loans payable based on new lending rates for equivalent loans at that date</li> </ul>

## 18. Risks arising from Financial Instruments

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

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

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

### Credit Risk

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

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

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

The City Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed in general, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the City Council's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise.

The following analysis summarises the City Council's potential maximum exposure to credit risk on other financial assets, based on experience of default and un-collectability, adjusted to reflect current market conditions. Council tax and non-domestic rates are excluded from the table below, as they are not financial instruments. This is because they are statutory debts and do not arise from contracts. In addition the City Council's treasury management investments and finance lease debtors are also excluded as there is no experience of default by these debtors, they are in a financially strong position, and the probability of them defaulting is thought to be extremely low.

	<b>Amount at 31 March 2019 (Net of bad debt provision)</b>	<b>Historical Experience of Default</b>	<b>Historical Experience Adjusted for Market Conditions at 31 March 2019</b>	<b>Estimated Maximum Exposure to Default &amp; Uncollectability at 31 March 2019</b>	<b>Estimated Maximum Exposure to Default &amp; Uncollectability at 31 March 2018</b>
	<b>£000</b>	<b>%</b>	<b>%</b>	<b>£000</b>	<b>£000</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>(A x C)</b>	
Advances to commercial companies	6,463	0.0	5.0	323	614
Customers	38,414	2.6	3.4	1,306	565
Housing rents	138	0.4	0.5	1	119
Housing loans	5,359.59	0.0	0.0	0	5
				<b>1,630</b>	<b>1,303</b>

The City Council does not generally allow credit for customers. However, there is a balance of £5.6m that is past its due date for payment. This can be analysed by age as follows:

	<b>£000</b>
Less than three months	2,449
Three to six months	647
Six months to one year	551
More than one year	1,961
	<b>5,608</b>

## Liquidity Risk

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

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

A further £69.3m of the Council's borrowing is through an arrangement which takes the legal form of leases but is in substance borrowing. Under this arrangement the Council leased the site of the Wightlink Ferry Terminal to Canada Life in return for a lump sum premium. The Council then leased the site back from Canada Life in return for a rent which is linked to the retail price index (RPI).

The remainder of the City Council's borrowing consists of fixed rate PWLB debt. These loans have a weighted average remaining term of 28 years. In real terms the value of the debt will be substantially eroded through the remainder of its term by inflation. The PWLB also allows debt to be rescheduled prior to maturity although this may necessitate paying a premium to the PWLB.

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

	<b>31 March 2018</b>	<b>31 March 2019</b>
	<b>£000</b>	<b>£000</b>
Within 1 year	7,987	9,000
Between 1 and 2 years	7,997	8,995
Between 2 and 5 years	24,053	25,349
More than 5 years	519,873	546,177
	<b>559,911</b>	<b>589,521</b>

### **Market Risk - Interest Rate Risk**

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

- Borrowings at variable rates – no impact apart from the LOBO loan that is subject to an interest rate review by the lender in March 2019.
- Borrowings at fixed rates – the fair value of the borrowings will fall.
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- Investments at fixed rates – the fair value of investments will fall. Where fixed rate investments have short maturities, the effect will be similar to that for variable rate investments, as the replacement investments will generate more income to the Comprehensive Income and Expenditure Statement.

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

The City Council has a number of strategies for managing interest rate risk. In particular, the City Council aims to manage its investment maturity profile to ensure that no single month exposes the City Council to a substantial re-investment requirement when interest rates may be relatively low.

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

According to this assessment strategy, at 31 March 2019, if interest rates had been 0.5% higher with all other variables held constant, the financial effect would be an increase in investment income of £0.7m. The impact of a 0.5% fall in interest rates would have been a reduction in investment income of £0.7m.

## 19. Long-term Debtors

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
13,162	Finance Lease Debtors	12,799
15,086	Other	14,588
<u>28,248</u>		<u>27,388</u>

## 20. Short-term Debtors

<b>2017/18</b>	<b>Outstanding Debtors at 31st March (Net</b>	<b>2018/19</b>
<b>£000</b>	<b>of Bad Debt Provision)</b>	<b>£000</b>
963	NNDR (debtor for prior overpayments due back from MHCLG)	1,024
10,430	Council Tax receivable from taxpayers	11,851
2,528	Non domestic rates receivable from taxpayers	5,004
21,101	Trade debtors	28,522
13,051	Government Departments	7,534
9,162	Housing Benefits	8,837
8,609	Housing Rents	2,244
2,270	Other debtors	7,511
7,835	Prepayments & accrued income	5,713
(21,370)	Provision for bad debts	(23,488)
<u>54,579</u>		<u>54,752</u>

Note - The presentation has been restated to bring it in line with Whole of Government Accounts layout.



## 21. Cash and Cash Equivalents

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

<b>31 March 2018</b>	<b>31 March 2019</b>
<b>£000</b>	<b>£000</b>
953 Cash held by the Authority	927
(8,410) Bank current accounts	(4,177)
29,690 Investments in money market funds and instant access deposit accounts	29,870
<b>22,233</b>	<b>26,620</b>

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

## 22. Short-term Creditors

<b>2017/18</b>	<b>Outstanding Creditors at 31st March</b>	<b>2018/19</b>
<b>£000</b>		<b>£000</b>
(28,665) Trade Creditors		(24,329)
(31) Council Tax creditor (between preceptor/billing authority)		(134)
(206) NDR retained income creditor (between preceptor/billing authority)		(1)
(11,765) NDR taxpayer receipts not yet paid to Government		-
(710) Council Tax refundable to taxpayers		(744)
(2,960) Non domestic rates refundable to taxpayers		(1,370)
(3,424) Government Departments		(3,529)
(7,513) Other creditors		(5,772)
(22,390) Receipts in Advance		(19,028)
<b>(77,665)</b>		<b>(54,907)</b>

Note - The presentation has been restated to bring it in line with Whole of Government Accounts layout.

## 23. Provisions

	<b>Short Term £000</b>	<b>Long Term £000</b>	<b>Total £000</b>
<b>Balance at 31 March 2017</b>	<b>(3,044)</b>	<b>(7,472)</b>	<b>(10,516)</b>
Additional provisions made in 2017/18	(441)	(416)	(857)
Amounts used in 2017/18	-	6	6
Unused amounts reversed in 2017/18	369	2,252	2,621
<b>Balance at 31 March 2018</b>	<b>(3,116)</b>	<b>(5,630)</b>	<b>(8,746)</b>
Additional provisions made in 2018/19	(3,144)	(6,906)	(10,051)
Amounts used in 2018/19	1,054	-	1,054
<b>Balance at 31 March 2019</b>	<b>(5,206)</b>	<b>(12,536)</b>	<b>(17,742)</b>

Provision for Appeals by Non Domestic Rate Payers - £13.2m (£7.4m in 2017/18)

The City Council retained 49% of the non-domestic rates that it collected in 2017/18. In 2018/19 the City Council joined a non-domestic rate pool which will retain 99% of the non-domestic rates that it collects. The amount of non-domestic rates collected is affected by appeals against the rateable values of non-domestic properties.

## 24. Other Long-term liabilities

<b>2017/18 £000</b>	<b>2018/19 £000</b>
(13,067) Assets transferred from Hampshire County Council	(13,229)
(65,280) Service Concessions (including PFIs)	(61,507)
(12,256) Other	(15,165)
<b>(90,603)</b>	<b>(89,901)</b>