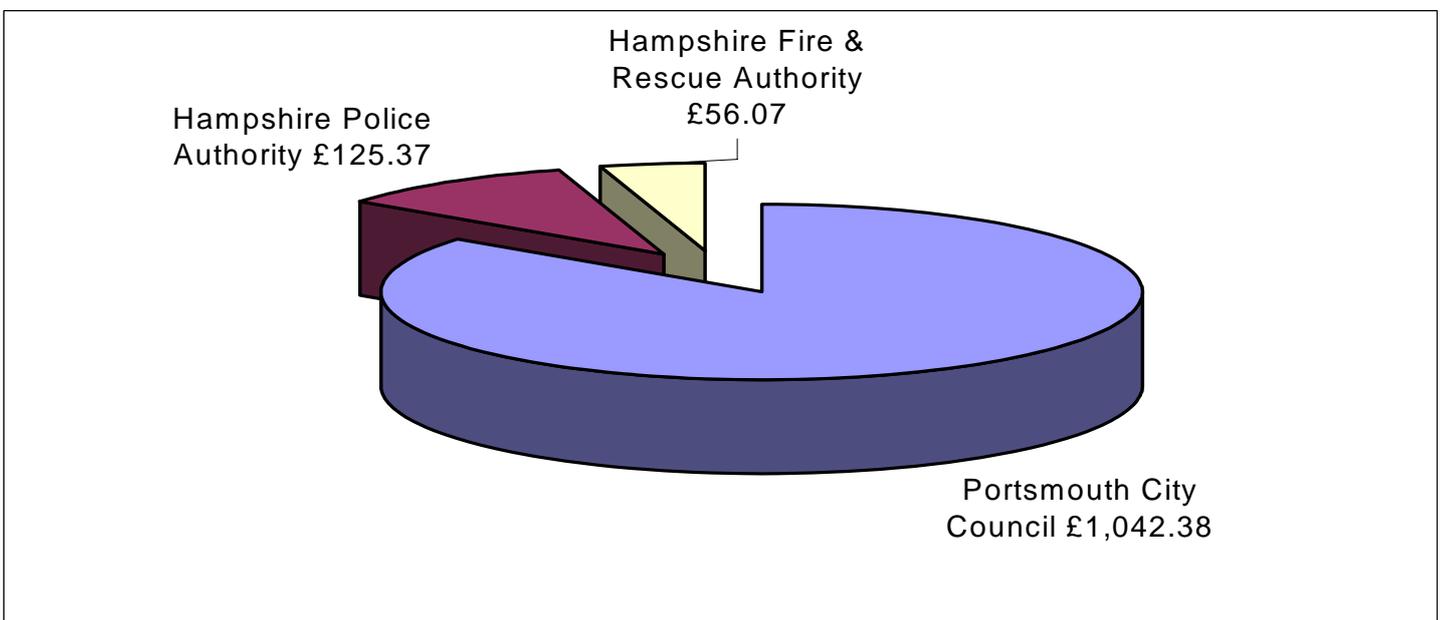


SUMMARY FINANCIAL STATEMENTS 2006/07

Portsmouth City Council has for many years had the lowest Council Tax in Hampshire. The Council Tax due in 2007/08 amounted to £ 67.81m and is shared between Portsmouth City Council (PCC), Hampshire Police Authority (HPA), and Hampshire Fire & Rescue Authority (HFRA) as follows:

Portsmouth City Council	£57.84m
Hampshire Police Authority	£6.88m
Hampshire Fire & Rescue Authority	£3.09m

The above Council Tax amounts translate into a Council Tax for a resident of a Band D property of £1,223.82. This Council tax amount is then used to fund the services of the Council, the Police Authority and the Fire & Rescue Authority as follows:

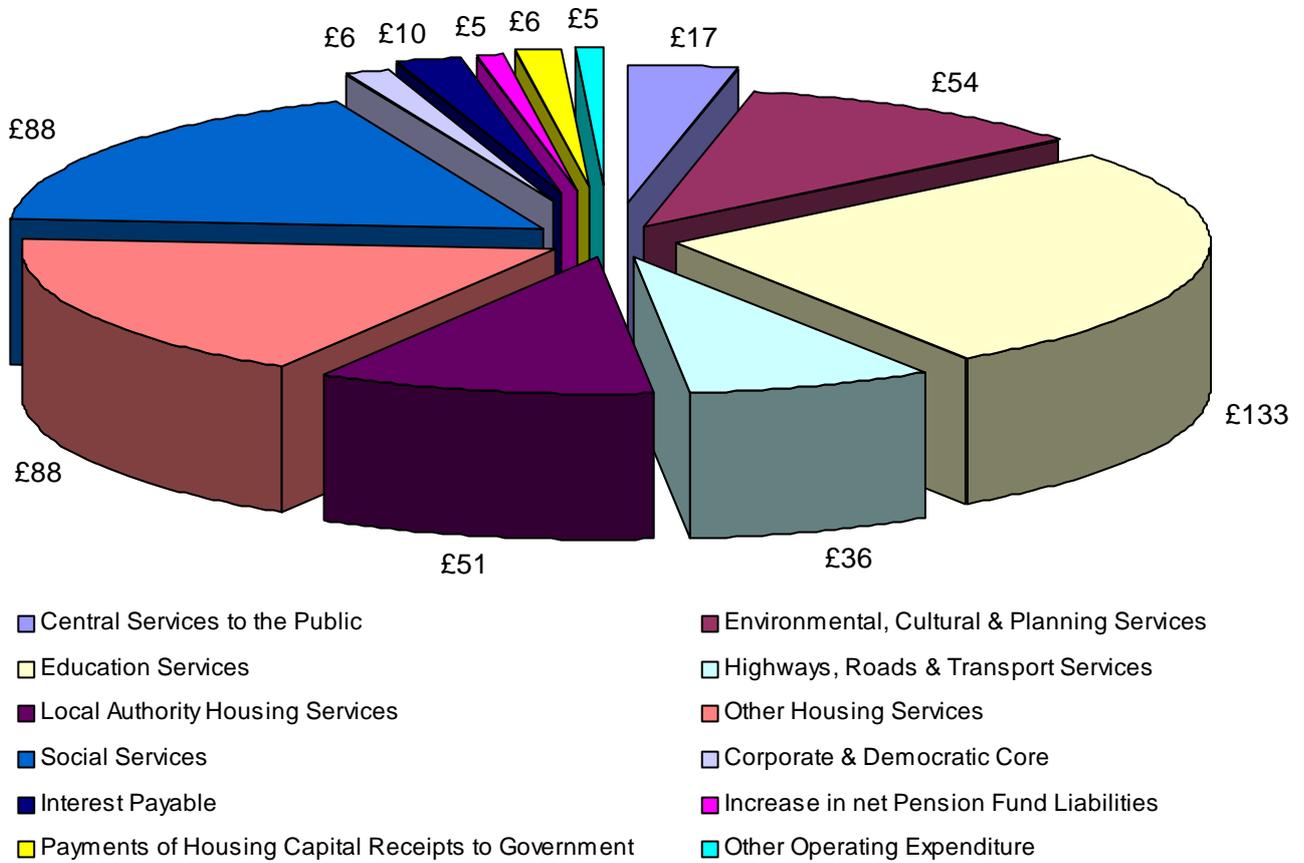


In addition to being a low taxing Authority, Portsmouth also has a relatively high number of properties in the lower Council Tax bands which means that the level of Council Tax income for Portsmouth is therefore relatively low. Not only that, Portsmouth is currently classified as a "floor authority" which means that Portsmouth receives the minimum annual increase in the main Revenue Support Grant from Central Government. For 2006/07 this represented an increase in Government Grant of 2.0%.

The charts below show the amount that the Council spent in 2006/7 and where this funding came from. Overall the Council spent £499m. It includes all income and expenditure on the services for which the City Council is responsible. The charts below show information prepared according to a statutory format that is followed nationally to facilitate comparability between Councils. This format is quite different to the way in which city council services are managed, delivered and budgeted for and therefore it is not readily comparable to the City Council's budget, which is prepared in a form consistent with the way in which the Council is organised.

WHERE THE MONEY WAS SPENT

City Council Gross Revenue Expenditure 2006/07 £498.7m

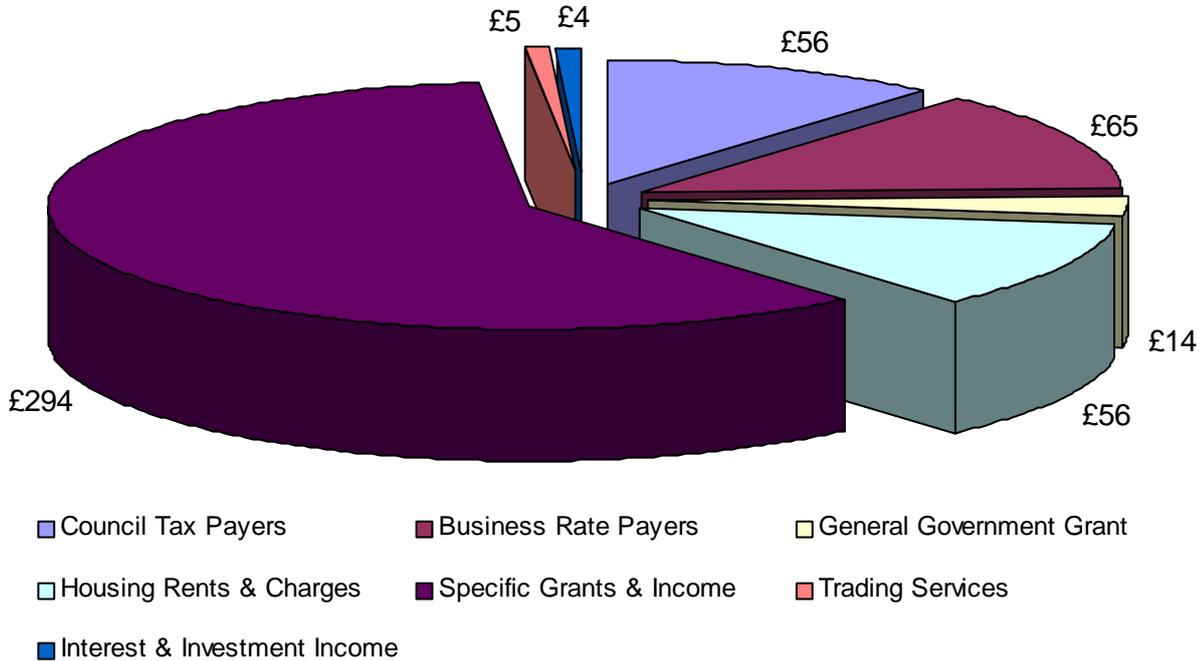


The chart below demonstrates how that cost of providing the City Council services above has been financed from Government Grants, Fees & Charges and Council Tax.

WHERE THE MONEY CAME FROM

City Council Sources of Finance 2006/07

£493.9m



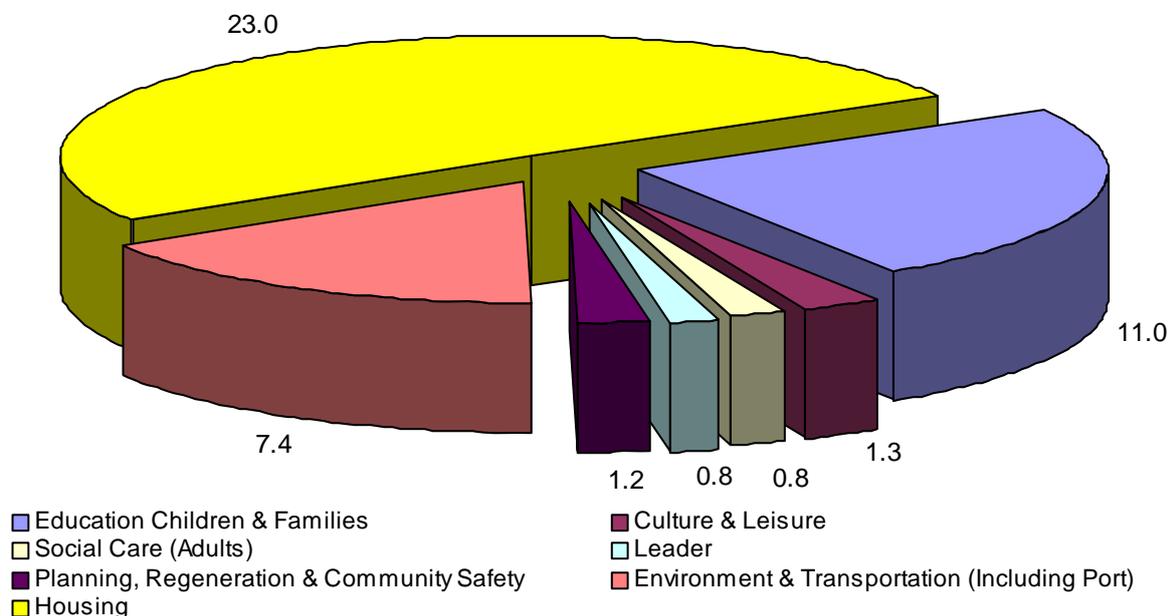
Only 11% of what the council spends comes from the Council Tax. The total amount of expenditure exceeded the total amount of income received by the City Council including Council Tax, Government Grant, Business Rates and other income by £4.8m which will now be drawn from the City Council's General Reserves. This compares with a planned withdrawal from General Reserves of £6.7m and therefore represents an overall improvement of £1.9m against the budget. The most significant reasons for the improvement in general reserves are as follows:

- Unused general contingency - £0.5m
- The success of the move from residential care to independent living - £0.3m
- Higher than anticipated income from planning fees (£0.2m), charges for court enforcement activities (£0.1m) and additional profits from the Spinnaker Tower (£0.1m) - £0.4m
- Reduced costs and increased income from Treasury Management and Capital Financing activities (i.e. long term loans, short term investments and non use of contingencies) - £0.8m
- Lower than expected costs of external audit fees - £0.2m

HOW MUCH WAS SPENT ON CAPITAL INVESTMENT

In addition to day to day spending on Council services, the Council uses income that it receives from the sale of its own assets, capital grants from government, borrowing and other contributions to fund its investment in the infrastructure and other assets used in the delivery of services. On the 31 March 2007, the City Council had fixed assets such as land, buildings and equipment valued in excess of £1.2 billion. During 2006/07, the City Council made £45m of Capital Investment within the City of which £39m was spent on the City Council's own assets. The remaining £6m was mainly spent on grants and loans for private sector housing and other organisations that contribute towards the Council's objectives. The areas of expenditure are shown below.

Main Areas of Capital Expenditure 2006/07 £45.5m



In overall terms, the City Council has a Net Worth (i.e. the value of assets owned less its liabilities due) of £901.53 million. Much of the Council's worth is invested through capital expenditure on Fixed Assets such as Land and Buildings which it uses to deliver its services. The Council's net worth increased over the year by £20.5m mainly due to a 6% increase in the valuation in Council Houses and a 45% increase in investments. This was partly offset by a 19% increase in creditors.

HOW MUCH IS THE COUNCIL WORTH ?

SUMMARY BALANCE SHEET AT 31 MARCH 2007

NOTES ON ASSETS & LIABILITIES

The Table summarises the assets and liabilities of the Council as at 31 March 2007.

Assets such as land, buildings, vehicles and equipment plus intangible assets such as software licences and copyrights.

Amounts owed to the Council but due to be paid over a year from now.

Surplus cash invested for less than 1 year

Purchased stores and equipment not yet used

Amounts owed to the Council and due to be paid within 1 year

Amounts owed by the Council to others

Loans due to be repaid by the Council within 1 year

Mainly cash to be taken from the bank account but in the process of clearing

Loans due to be repaid by the Council after 1 year

Long term loans taken out prior to Local Government Re-organisation in 1997 and maintained by Hampshire County Council on behalf of Portsmouth City Council

Underlying shortfall in the value of the Council's Pension Fund

The Net Worth of the Council (i.e. How much would be left if it sold all of its assets and paid all of its liabilities)

<u>ASSETS & LIABILITIES</u>	<u>£'000</u>
Fixed Assets	1,282,600
Long Term Debtors	27,470
Total Long Term Assets	1,310,070
Short Term Investments	76,909
Stocks	1,916
Debtors	47,493
Total Current Assets	126,318
Total Assets	1,436,388
Creditors	(70,359)
Short Term Loans	(16,461)
Bank Overdraft	(3,745)
Current Liabilities	(90,565)
Long Term Loans	(114,279)
Deferred Liabilities	(133,824)
Pension Fund Liability	(196,190)
Total Long Term Liabilities	(444,293)
Total Liabilities	(534,858)
Total Assets less liabilities	901,530

The Council's Net Worth of £901.53 million is held in the following reserves. Some of these reserves are "real" and therefore represented by cash (or cash-backed) and some are not real and reflect for example, increases in the valuation of assets which, because they have not been sold, no cash has been realised and therefore are not cash-backed.

HOW IS THAT WORTH HELD?

NOTES ON RESERVES	<u>RESERVES</u>	<u>£'000</u>
<p>Non cash-backed reserves are not available to spend, they are created through accounting entries to identify the value of unrealised changes in the value of fixed assets, the value of capital expenditure that the Council has not yet borrowed for and the underlying and unrealised surplus / deficit of the Council's Pension Fund.</p>	Non Cash-backed Reserves	816,984
<p>General reserves are real cash backed reserves that have been set aside to help back up the Council's day-to-day activities i.e. they are there to act as an overall contingency for unseen events as well as to avoid falling into deficit. They can be used for any purpose in the future that the Council thinks is appropriate and prudent.</p>	General Reserves	22,397
<p>These are real cash backed Reserves that have been set aside for a specific purpose. They include for example, reserves for the financing of new assets, for spend to save schemes and the repayment of loans due in the future.</p>	Cash-backed Reserves	62,149
	Total Reserves	901,530

HOW HAS THE CITY COUNCIL'S CASH CHANGED OVER THE YEAR ?

Cash Surplus (Overdraft) at the start of the year	(5,927)
Cash Surplus (Overdraft) at the end of the Year	(2,171)
Increase in Cash Balances over the Year	3,756

The Council's Financial Statements are prepared on an accruals basis rather than a cash basis. This means that transactions are recorded when they are legally entered into rather than when cash is transferred. The Financial Statements therefore do not entirely reflect transactions of cash. The actual cash position of the Council changed from an "overdraft" position of £5.9m as at 31 March 2006 to a reduced "overdraft" of £2.2m as at 31 March 2007. A net increase in cash of £3.7m.

Whilst the Council is shown to be in overdraft, the Council was not overdrawn at its bank as at 31 March 2007. In fact the "overdrawn" balance represents cash which was in the process of clearing on that date. The remainder of the Council's surplus cash at that point in time was

invested on the London Money Markets, of which sufficient is available to be called back at any point in time to avoid the Council's bank becoming overdrawn.

EFFECT ON COUNCIL TAX

The table below shows how much Band D Council Tax was required to finance each service after taking into account the consumption of fixed assets, and government grants and other income generated by each service.

BREAKDOWN OF BAND D COUNCIL TAX	
Service	£
Central Services to the Public	24
Court Services	4
Cultural, Environment & Planning Services	342
Education Services	114
Highways & Transport Services (including Port)	9
Private & Voluntary Sector Housing Services	55
Social Services	553
Exceptional Costs of Legal Settlement	17
Corporate & Democratic Core	54
Langstone Harbour Board	2
Investment Property	(45)
Interest Payable on Net Debt	46
Increased Shortfall on Pension Fund	37
Portchester Crematorium	(1)
Other Income & Expenditure	13
Total Band D Tax	1,224

Most expenditure on Education Services is funded by specific Government Grants resulting in only a small proportion of the service being funded by Council Tax.

THE FUTURE FINANCIAL POSITION

The City Council plans and forecasts its spending and its sources of finance over the medium term. Actual expenditure for 2006/07 after taking account of financing from Government Grants, Fees and Charges and Council Tax required a contribution from General Reserves of £4.8m.

Over the 5 year period from 2007/08 to 2011/12, with the exception of 2007/08, the forecast estimates show that the City Council's expenditure will exceed its income as follows:

FINANCIAL FORECASTS 2007/08 TO 2011/12	
Financial Year	£m
2007/08 - Surplus	(3.56)
2008/09 - Deficit	4.72
2009/10 - Deficit	6.87
2010/11 - Deficit	9.01
2011/12 - Deficit	11.0

These deficits are planned to be funded from a combination of General Reserves, reductions in services and efficiencies.

General Reserves currently stand at £12.3m, of which a minimum £4.0m must be retained to guard against unforeseen events. These General Reserves are limited and are only available as long as there is money in the reserve to fund them. In conjunction with the use of General Reserves, savings targets for service reductions and efficiencies have therefore been set to meet the shortfall and amount to £4.5m in 2009/10, a further £4.5m in 2010/11 and £2.0m in 2011/12.