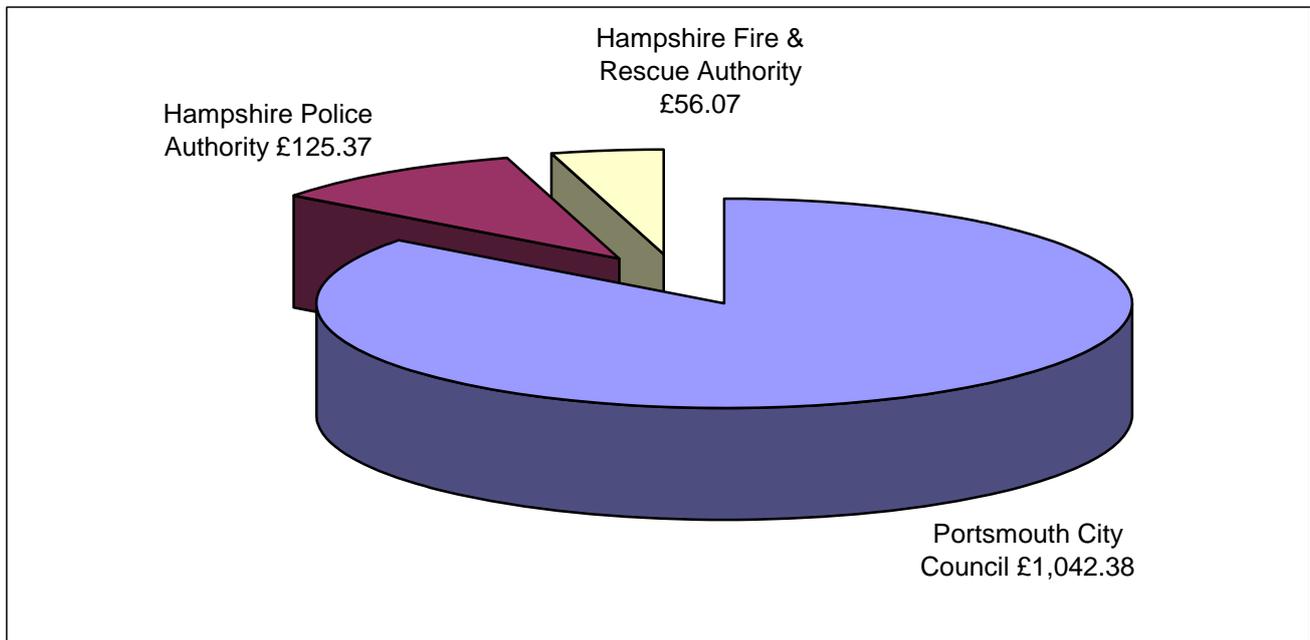


## **SUMMARY FINANCIAL STATEMENTS 2007/08**

Portsmouth City Council has had the lowest Council Tax in Hampshire for many years. The Council Tax provided funding of £71.25m for 2007/08. This was shared between Portsmouth City Council (PCC), Hampshire Police Authority (HPA), and Hampshire Fire & Rescue Authority (HFRA) as follows:

Portsmouth City Council	£60.70m
Hampshire Police Authority	£7.29m
Hampshire Fire & Rescue Authority	£3.26m

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:

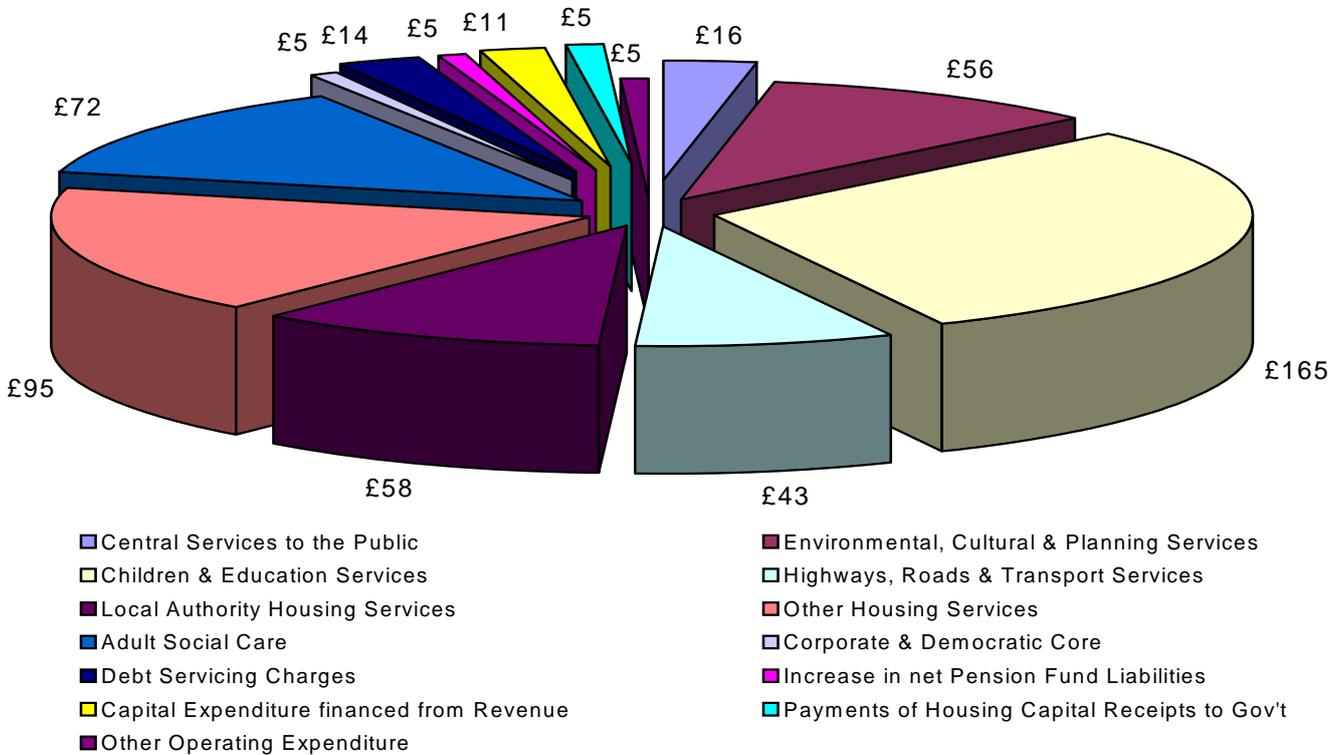


In addition to being a low taxing Authority, Portsmouth has a relatively high number of properties in the lower Council Tax bands which means that the level of Council Tax income for Portsmouth is also relatively low. Moreover, Portsmouth is currently classified as a “floor authority” which means that it receives the minimum annual increase in the main Revenue Support Grant from Central Government. For 2007/08 this represented an increase in central government grants of 1.3%.

The charts below show the amount that the Council spent in 2007/08 and where this funding came from. Overall the Council spent £550m. 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

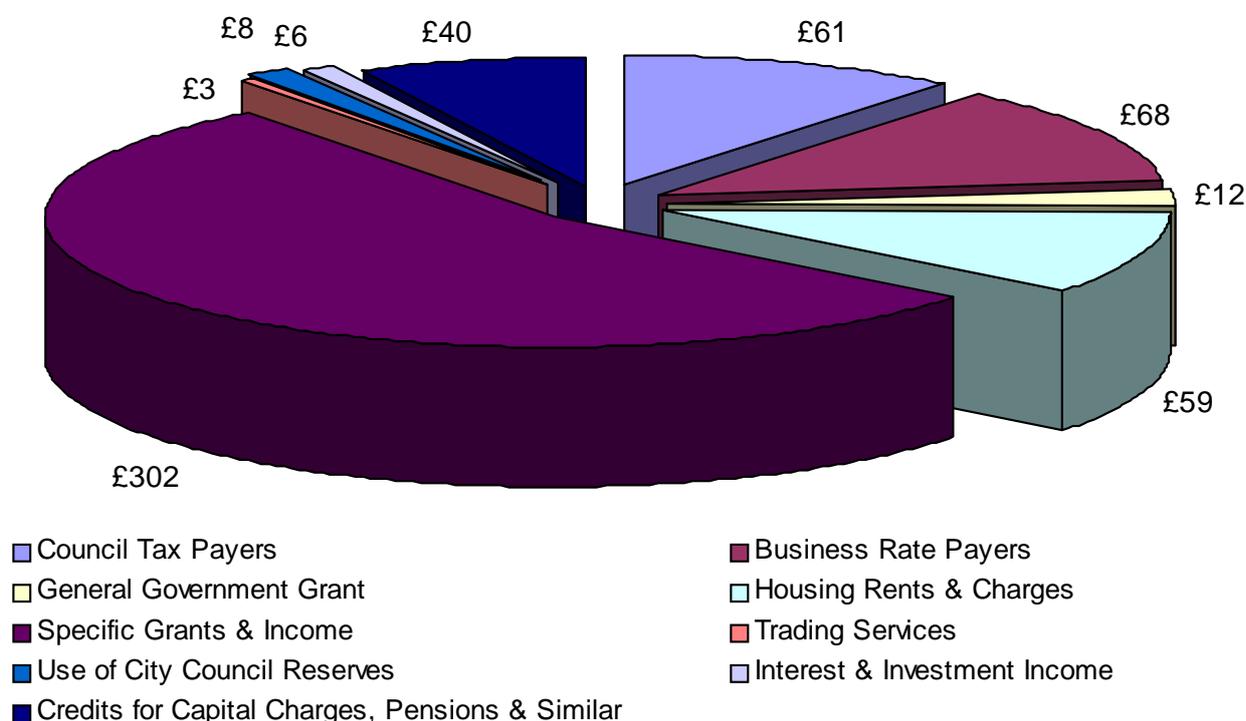
### City Council Gross Revenue Expenditure 2007/08 £550.1m



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 2007/08 £558.3m



Only 11% of what the council spends comes from the Council Tax. The City Council's Revised Budget for 2007/08 (excluding schools) estimated that the City Council would make a contribution to Reserves of £3.6m. This level of contribution was consciously planned in order to increase General Balances so that they could be used to support future year's budgets where significant cost pressures are known or expected to arise. The actual contribution to Reserves of £8.2m represents a net improvement in the Council's position compared to its budget of £4.6m. The most significant reasons for the improvement in General Reserves are as follows:

- Unused general contingency of £1.3m
- Vacancies arising from the difficulties in recruiting appropriately qualified professional staff in the following services have lead to underspendings of £1.1m
  - Asset Management Service £0.4m
  - Adult Social Care £0.4m
  - Housing Service £0.2m
  - Environmental Protection £0.1m
- Reduced Waste Disposal costs mainly due to much reduced volumes of waste sent to landfill sites plus additional sales of recyclable materials. This resulted in an overall underspend of £0.8m
- Waste Collection costs were £0.2m lower than anticipated due to a lower than expected number of new properties being built during the year.

- Improved performance of the Housing Benefits Service in relation to overpayments has led to both lower overpayments and a greater subsidy totalling £0.3m. Furthermore, in the knowledge that the improved performance was going to be achieved, the service deliberately held vacancies in a drive to make budget savings. These savings totalled £0.2m.
- Successful implementation of the strategy to reduce the numbers of Children in Care sent to providers outside the City to Foster Carers within Portsmouth has led to savings of £0.2m.
- Increased dividend from the Commercial Port of £0.3m arising from increased dues plus reduced rents and rates and reduced utilities costs arising from re-negotiated contracts.
- Reduced costs of the Civic Offices of £0.2m arising from reductions in energy consumption, savings from the new cleaning contract and staffing vacancies.

#### Main Overspendings against Budget:

- Higher than anticipated costs of “Supporting People” payments amounting to £0.2m arising from delays in the re-negotiation of contracts with service providers.
- Costs of commissioned and contracted services for clients with learning disabilities across domiciliary, residential and nursing care provision were £0.5m higher than anticipated.

Given that the City Council currently has forecast budget deficits of some £4.5m in 2009/10, a further £4.5m in 2010/11 and £2m per annum thereafter, this overall improvement in General Fund Reserves of £4.6m can now go some way towards “smoothing out” the savings required to eliminate those deficits in those years. Alternatively, this improvement of £4.6m could be used to provide “up front” investment costs associated with “Spend to Save” schemes or “Invest to Save” schemes.

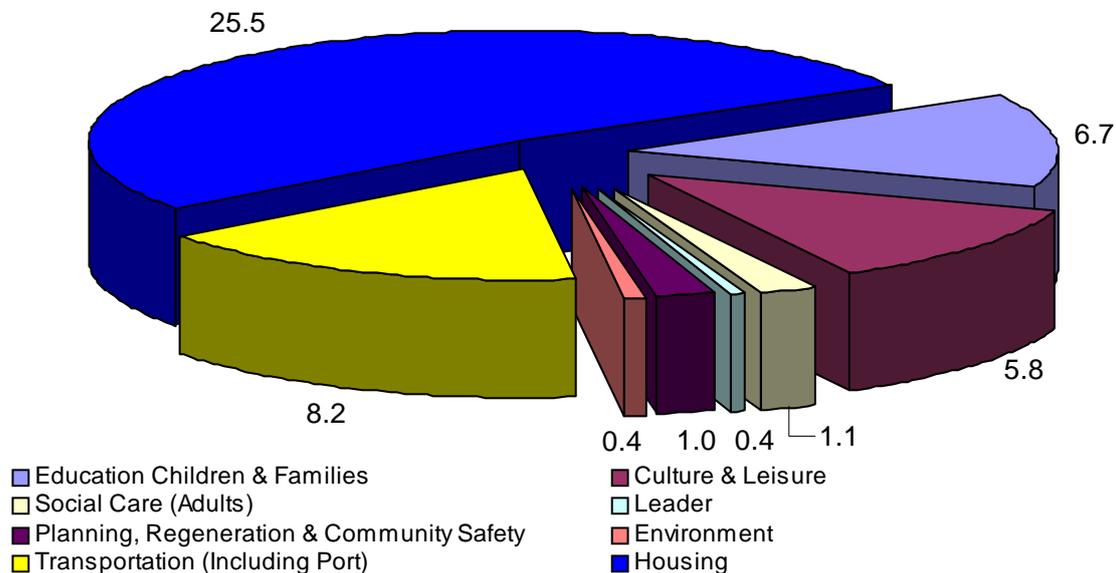
Plans are currently being worked up to reduce the Council’s net expenditure in future years to meet these deficits and comprise a combination of:

- Increased income,
- Improved efficiency,
- Service reductions in areas of lower priority.

## HOW MUCH WAS SPENT ON INVESTMENTS IN CAPITAL

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 2008, the City Council had fixed assets such as land, buildings and equipment valued in excess of £1.3 billion. During 2007/08, the City Council made £49m of Capital Investment within the City of which £42m was spent on the City Council's own assets. The remaining £7m 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 2007/08 £49.1m



In overall terms, the City Council has a Net Worth (i.e. the value of assets owned less its liabilities due) of £997.43 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 £108.1m mainly due to a 6% increase in the valuation in Council Houses, a 18% increase in short term investments, a 46% increase in assets under construction and new long term investments of £17.1 million.

## HOW MUCH IS THE COUNCIL WORTH ?

### SUMMARY BALANCE SHEET AT 31 MARCH 2008

#### NOTES ON ASSETS & LIABILITIES

The Table summarises the assets and liabilities of the Council as at 31 March 2008.

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 landfill allowances 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

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

Includes capital grants unapplied, debt administered by Hampshire County Council on behalf of Portsmouth City Council following local government reorganization in 1997, liabilities under finance leases and provisions for future liabilities

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 &amp; LIABILITIES</u>	<u>£'000</u>
Fixed Assets	1,325,780
Long Term Debtors	47,510
<b>Total Long Term Assets</b>	<b>1,373,290</b>
Cash and Short Term Investments	89,595
Stocks	3,156
Debtors	45,615
<b>Total Current Assets</b>	<b>138,366</b>
<b>Total Assets</b>	<b>1,511,656</b>
Creditors	(71,436)
Short Term Loans	(2,353)
Bank Overdraft	(3,107)
<b>Current Liabilities</b>	<b>(76,896)</b>
Long Term Loans	(141,752)
Pension Fund Liability	(139,487)
Other Liabilities	(156,090)
<b>Total Long Term Liabilities</b>	<b>(437,329)</b>
<b>Total Liabilities</b>	<b>(514,225)</b>
<b>Total Assets less liabilities</b>	<b>997,431</b>

The Council's Net Worth of £997.43 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?

<b>NOTES ON RESERVES</b>	<b><u>RESERVES</u></b>	<b><u>£'000</u></b>
<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>	<b>Non Cash-backed Reserves</b>	<b>918,978</b>
<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>	<b>General Reserves</b>	<b>31,205</b>
<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 and for spend to save schemes.</p>	<b>Cash-backed Reserves</b>	<b>47,248</b>
	<b>Total Reserves</b>	<b>997,431</b>

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

Cash Surplus (Overdraft) at the start of the year	(2,171)
Cash Surplus (Overdraft) at the end of the Year	(2,095)
<b>Increase in Cash Balances over the Year</b>	<b>76</b>

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 £2.17m as at 31 March 2007 to a reduced "overdraft" of £2.09m as at 31 March 2008. A net increase in cash of £0.08m.

Whilst the Council is shown to be in overdraft, the Council was not overdrawn at its bank as at 31 March 2008. 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	16
Court Services	4
Cultural, Environment & Planning Services	335
Children & Education Services	286
Highways & Transport Services	69
Private & Voluntary Sector Housing Services	60
Adult Social Care	385
Corporate & Democratic Core	36
Langstone Harbour Board	2
Trading Services	-26
Interest Payable on Net Debt	6
Increased Shortfall on Pension Fund	39
Portchester Crematorium	-1
Other Income & Expenditure	-169
	1,042

Most expenditure on Children & 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. The budgeted expenditure for 2007/08 after taking account of financing from Government Grants, Fees and Charges and Council Tax gave a contribution to General Reserves of £3.6m.

The forecast estimates of expenditure will require contributions from General Reserves of £4.7m in 2008/09, £6.9m in 2009/10 and £9.0m in 2010/11. These contributions represent the underlying budget deficits facing the Council and are the amounts between in year expenditure and in year income from all sources. Deficits can only be funded from General Reserves for as long as there is money in the reserve to fund them.

These General Reserves will be used to support future year's budgets whilst savings plans aimed at reducing annual expenditure to levels consistent with annual income are implemented over time.