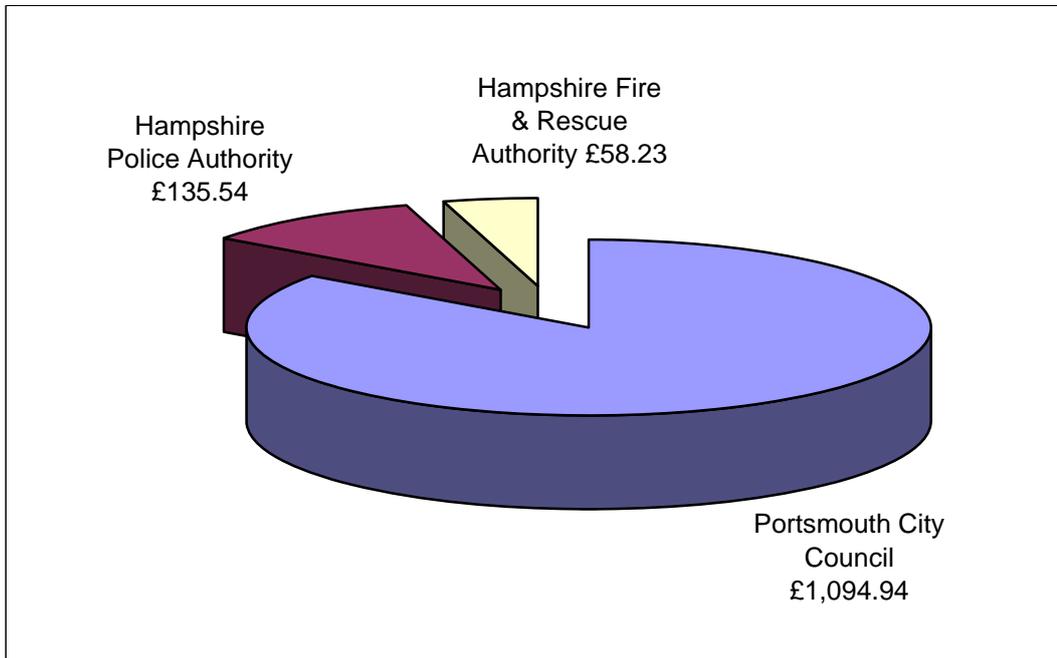


SUMMARY FINANCIAL STATEMENTS 2008/09

Portsmouth City Council has had the lowest Council Tax in Hampshire for many years. The Council Tax provided funding of £75.66m for 2008/09. This was shared between Portsmouth City Council (PCC), Hampshire Police Authority (HPA), and Hampshire Fire & Rescue Authority (HFRA) as follows:

Portsmouth City Council	£64.28m
Hampshire Police Authority	£7.96m
Hampshire Fire & Rescue Authority	£3.42m

The above Council Tax amounts translate into a Council Tax for a resident of a Band D property of £1,288.71. This Council tax amount is then used to fund the services of the Council, the Police Authority and the Fire & Rescue Authority as follows:

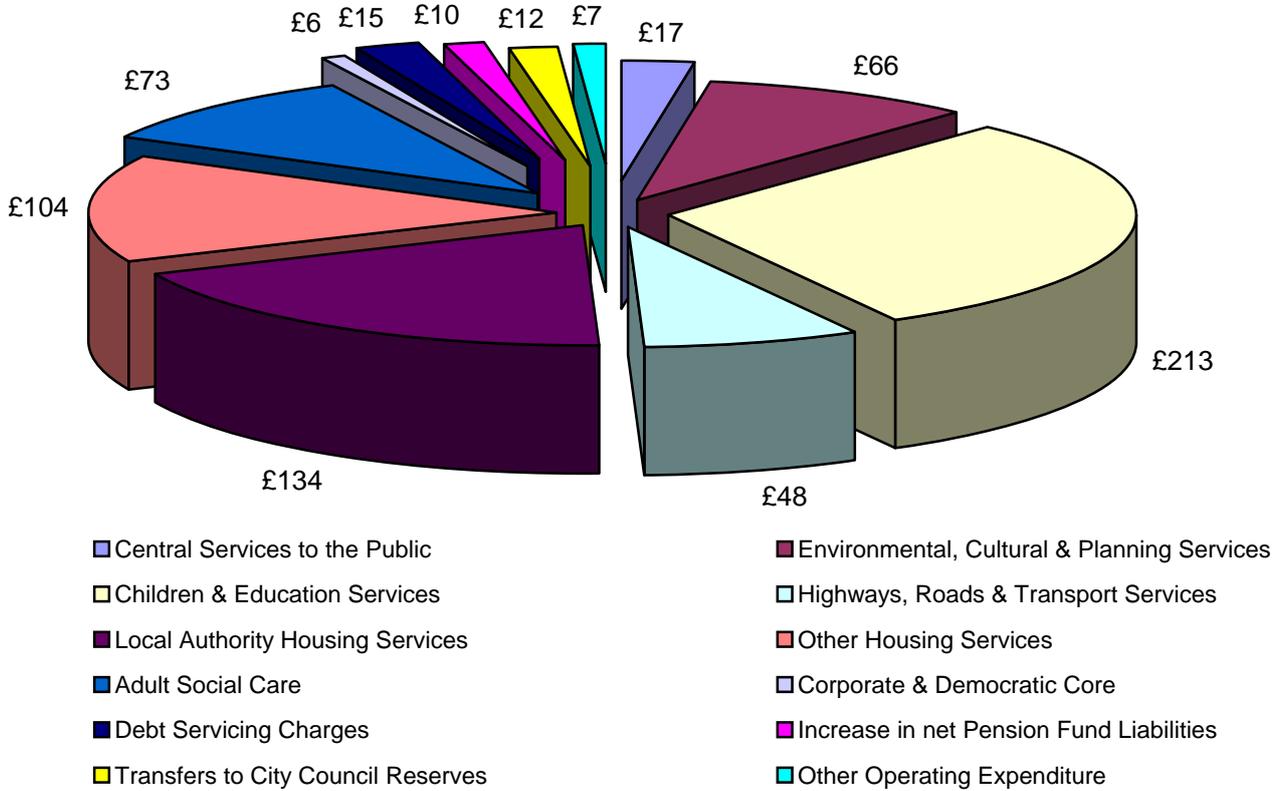


In addition to being a low taxing Authority, Portsmouth has a relatively high number of properties in the lower Council Tax bands which means that the level of Council Tax income for Portsmouth is also relatively low. Moreover, Portsmouth is currently classified as a “floor authority” which means that it receives the minimum annual increase in the main Revenue Support Grant from Central Government. For 2008/9 this represented an increase in central government grants of 8.7%, largely due to a rise in the size of the NNDR pool.

The charts below show the amount that the Council spent.

WHERE THE MONEY WAS SPENT

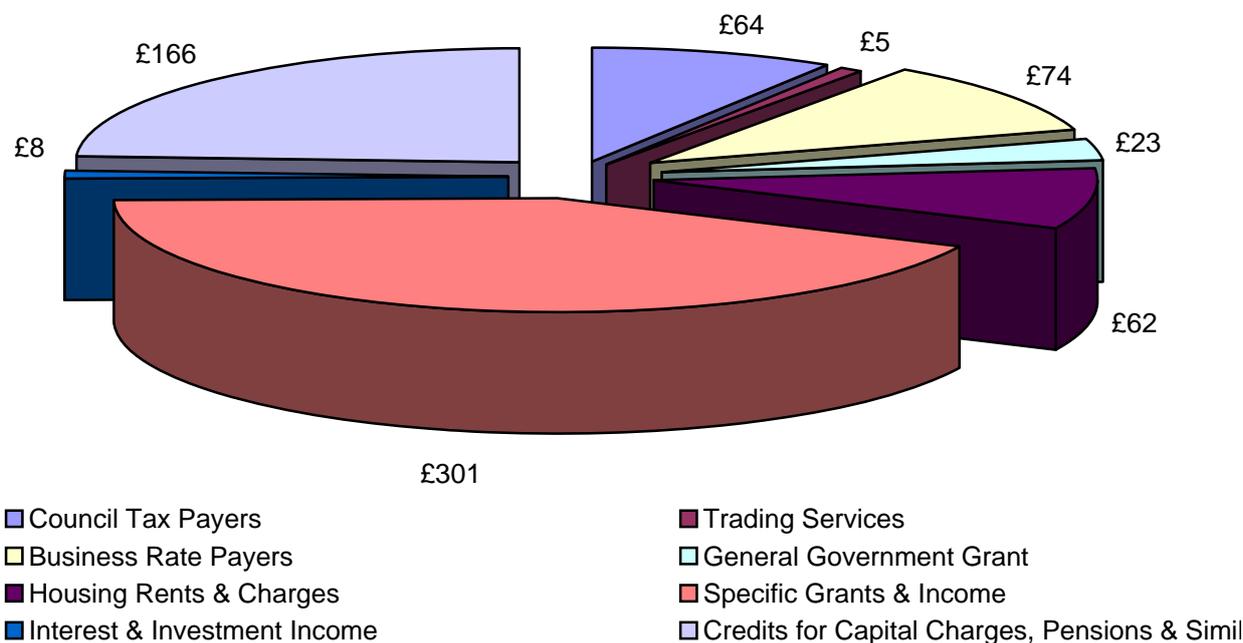
City Council Gross Revenue Expenditure 2008/09 £702.7m



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 2008/09 £701.9m



Only 9% of what the council spends comes from the Council Tax. The City Council's Revised Budget for 2008/09 (excluding schools) estimated that the City Council would make a contribution from Reserves of £5.9m. This level of contribution was consciously planned in order to support service spending in the current year whilst savings initiatives are managed in over the medium term. The ultimate aim is for in-year expenditure to match in-year income. The actual contribution from Reserves of £0.8m represents a net improvement in the Council's position compared to its budget of £5.1m. The most significant reasons for the improvement in the forecast level of General Reserves are as follows:

- Unused general contingency of £1.4m
- Vacancies arising from the difficulties in recruiting appropriately qualified staff in the following services have led to underspendings of £1.2m
 - Adult Social Care £0.7m
 - Housing Service £0.2m
 - Corporate & Support Services £0.2m
 - Environmental Protection £0.1m
- Lower than anticipated Pay Award across the Council of £0.2m
- Higher than anticipated income from the investment of surplus cash balances amounting to £0.5m
- A prior year subsidy adjustment plus improved performance of the Housing Benefits Service in relation to overpayments has led to a greater than planned subsidy totalling and £0.4m.

- Slippage on Area Based Grant funded schemes of £0.2m relating to Preventing Violent Extremism, Planning Policy Climate Change and Local Involvement Networks which will now be spent during 2009/10
- Additional miscellaneous income arising from the receipt of the Performance Reward Grant for achieving Local Area Agreement stretch targets plus a reimbursement of VAT which, in total, amounted to £0.5m
- Additional Income from the Residential Care deferred payments scheme amounting to £0.2m
- Lower than anticipated take up of Travel Concessions from the Free Bus Pass Scheme has resulted in savings of £0.2m

Main Overspendings against Budget:

- Reduced funding from “Supporting People” grant which has placed pressures across Adult Social Care amounting to £0.2m
- In house residential units have suffered reduced income arising from lower occupancy levels combined with unplanned agency costs arising from staff absences amounting to £0.2m
- Lower than budgeted income from Off Street Parking activities of £0.2m

Given that the City Council currently has a cumulative budget deficit of £14.3m over the next 5 years, this overall improvement in the future forecast of General Fund Reserves of £5.1m can now go some way towards “smoothing out” the savings required to eliminate the deficit. Alternatively, this improvement of £5.1m could be used to provide “up front” investment costs associated with “Spend to Save” schemes or “Invest to Save” schemes which are aimed at generating on-going cashable efficiencies for the Council over the medium term.

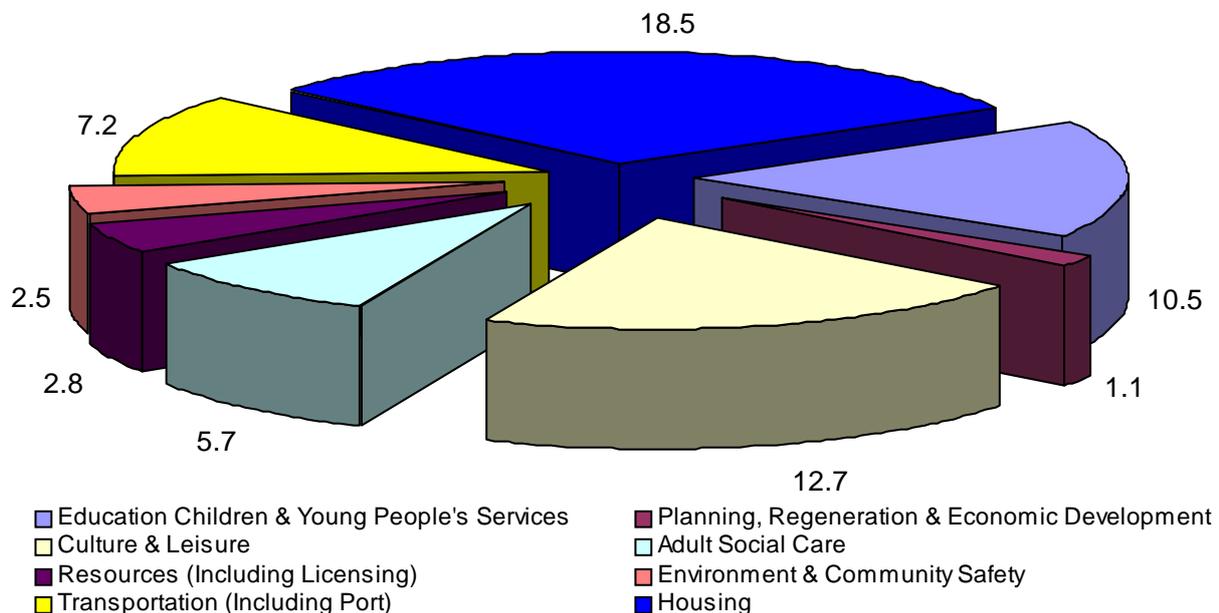
Plans are currently being worked up to reduce the Council’s net expenditure in future years to meet these deficits and comprise a combination of:

- 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 2009, the City Council had fixed assets such as land, buildings and equipment valued in excess of £1.0 billion. The City Council made £61.0m of Capital Investment within the City in 2008/09 from its Capital Programme. Of this, £51.9m was spent on the City Council's own assets. The remaining £9.1m 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 2008/09 £61.0m



In overall terms, the City Council has a Net Worth (i.e. the value of assets owned less its liabilities due) of £740million. 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 decreased over the year by £256.0m mainly as a consequence of writing down the value (impairment) of the Council's Land, Buildings, Council Dwellings and other assets amounting to £149.0m, plus the actuarial loss on the Pension Fund of £85.8m.

HOW MUCH IS THE COUNCIL WORTH ?

SUMMARY BALANCE SHEET AT 31 MARCH 2009

NOTES ON ASSETS & LIABILITIES

The Table summarises the assets and liabilities of the Council as at 31 March 2009.

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 it's assets and paid all of it's liabilities)

<u>ASSETS & LIABILITIES</u>	<u>£'000</u>
Fixed Assets	1,161,002
Long Term Debtors	76,706
Total Long Term Assets	1,237,708
Cash and Short Term Investments	127,008
Stocks	3,569
Debtors	38,728
Total Current Assets	169,305
Total Assets	1,407,013
Creditors	(73,832)
Short Term Loans	(2,769)
Bank Overdraft	(1,485)
Current Liabilities	(78,086)
Long Term Loans	(191,413)
Pension Fund Liability	(232,141)
Other Liabilities	(165,419)
Total Long Term Liabilities	(588,973)
Total Liabilities	(667,059)
Total Assets less liabilities	739,954

The Council's Net Worth of £739.95 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 and no cash has been realised, 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	648,888
<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	33,358
<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>	Cash-backed Reserves	57,708
	Total Reserves	739,954

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

Cash Surplus (Overdraft) at the start of the year	(2,095)
Cash Surplus (Overdraft) at the end of the Year	(346)
Increase in Cash Balances over the Year	1,749

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 £2.095m overdrawn as at 31 March 2008 to £0.346m overdrawn as at 31 March 2009 - a net increase in cash of £1.749m.

Whilst the Council is shown to be in overdraft, the Council was not overdrawn at its bank as at 31 March 2009. 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	14.06
Court Services	3.68
Cultural, Environment & Planning Services	365.31
Children & Education Services	588.47
Highways, Roads & Transport Services	103.92
Private & Voluntary Sector Housing Services	50.29
Adult Social Care	360.61
Corporate & Democratic Core	35.80
Unapportionable Costs	4.22
Loss on Disposal of Fixed Assets	-8.51
Langstone Harbour Board	0.48
Trading Services	7.38
Interest Payable on Net Debt	-5.42
Increased Shortfall on Pension Fund	64.64
Portchester Crematorium	-0.73
Other Income	-1.23
Adjustments to Net Expenditure Required by Law	-488.03
	1,094.94

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

In 2008/9, the City Council has experienced a deterioration in its General Reserves (excluding schools) of £0.8m and this represents the extent to which the City Council's in-year expenditure has exceeded its in-year income. The £0.8m contribution from General Reserves was, however, £5.1m less than planned and, therefore, has had a positive impact on the overall forecast financial position of the Council.

The forecast estimates of expenditure will require contributions from General Reserves of £6.9m in 2010/11, £9.7m in 2011/12 and £12.0m in 2012/13. 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.