Public Document Pack

BARRY KEEL
Chief Executive
Floor 1 - Civic Centre
Plymouth
PL1 2AA

www.plymouth.gov.uk/democracy

Date: 24/06/10 Telephone Enquiries 01752 305466 Fax 01752 304819

Please ask for Katey Johns, Democratic Support Officer e-mail katey.johns@plymouth.gov.uk

AUDIT COMMITTEE
'TO FOLLOW' REPORTS – SUPPLEMENT TWO

DATE: **MONDAY 28 JUNE 2010**
TIME: **10.00 AM**
PLACE: **COUNCIL HOUSE, PLYMOUTH (NEXT TO THE CIVIC CENTRE)**

Members –
Councillors Berrow, Evans, Murphy, Stark and Thompson.

Independent Members –
Mr. Clarke, Ms. Myles and Mr. Stewart.

PLEASE FIND ATTACHED FURTHER INFORMATION FOR CONSIDERATION UNDER AGENDA ITEM NO. 12.

BARRY KEEL
CHIEF EXECUTIVE

AUDIT COMMITTEE

12. STATEMENT OF ACCOUNTS 2009/10 **(Pages 1 - 24)**

The Director for Corporate Support will submit the Statement of Accounts for 2009/10.

EXPLANATORY FOREWORD

Financial Year ended 31 March 2010

INTRODUCTION

The Statement of Accounts is published to show local people and others what services the Council has spent money on during the year and how these have been funded. Inevitably it contains technical language and a glossary to help explain some of the terms can be found at the back of the publication.

The Accounts and Audit (Amendment) (England) Regulations 2009 require the Council's Section 151 Officer, the Director of Corporate Support, to certify that the accounts present a 'true and fair' view of the financial position of the Council at the 31 March 2010 and its income and expenditure for the year ended 31 March 2010.

Although the Statement of Accounts shows the financial outturn position for 2009/10 and Balance Sheet position as at 31 March 2010, the Council is required to take into account items occurring after 31 March 2010 if they would have a material effect on the figures presented and to publish the relevant date. The Statement of Accounts therefore includes all post balance sheet events up to and including the 22 June 2010.

The Statements are required to be prepared in accordance with the Code of Practice on Local Authority Accounting, which is represented by two key documents:

- The Statement of Recommended Practice (SORP) applicable for the 2009/10 accounts
- The Best Value Accounting Code of Practice (BVACOP)

These codes are updated annually by the Chartered Institute of Public Finance and Accountancy (CIPFA). Changes to the documents and the impact on the Council's statutory accounts are summarised below.

<u>SORP 2009</u>

The main changes included in the 2009 SORP applicable to Plymouth's accounts are as follows:

1. <u>Accounting for PFI and similar schemes</u>

   In the past local authorities have been able to account for PFI schemes as 'off balance sheet' transactions. However under International Financial Reporting Standards (IFRS) the assets created under these schemes will generally be required to be recognised on an authority's Balance Sheet where the authority has control over the services provided within the contract and the asset reverts to the authority at the end of the PFI contract. A corresponding liability will be created in the Balance Sheet to reflect the financing provided by the PFI operator. The 2009 SORP has adopted the IFRS in advance of the move to full IFRS accounting, bringing local authorities in line with the Government and Health Sectors and enabling consistency of treatment within the IFRS based Whole of Government Accounts consolidation.

   Regulations to offset any impact on authorities funding positions have been put in place by the Department for Communities and Local Government (DCLG). These regulations enable the statutory minimum revenue provision (MRP) charge to be based on a sum equal to the annual PFI liability payment.

Plymouth currently has one PFI scheme, the schools at Woodview campus and Riverside primary, operated by Pyramid Consortium.

2. Accounting for local taxes

The 2009 SORP includes detailed requirements for accounting for council tax and NNDR.

Council Tax

The SORP includes a requirement to include appropriate shares of Council tax debtors in the billing authority (Plymouth) and major preceptors (Devon and Cornwall Police and Devon and Somerset Fire Service) Balance Sheets. In addition, the amount to be shown in Plymouth's Income and Expenditure account will now be based on accrued income for the year, rather than the precept on the collection fund agreed as part of the council tax setting process. The difference between the two figures is accounted for in a new Collection Fund Adjustment Account.

NNDR

Under the 2009 SORP, the authority is no longer required to recognise NNDR debtors in its accounts, but should instead recognise a creditor or debtor for cash collected from NNDR debtors as an agent of the Government but not yet paid over (or overpaid) to the Government at the balance sheet date.

3. Financial Liabilities

There is now a requirement that the portion of long term financial liabilities due to be settled within 12 months after the balance sheet date be presented within current liabilities. This mainly affects accrued interest payments under the effective interest rate calculations.

4. Removal of Disclosure Notes

The following disclosure notes have been removed:
- Section 137 expenditure
- Expenditure on Publicity
- The Building Control Account
- BID schemes

5. Officer Remuneration

The SORP 2009 requires the disclosure of officer remuneration to be in accordance with legislative requirements. Regulation 4 of the Accounts and Audit (Amendment No2) (England) Regulations (SI 2009 No 3322) introduces a new legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees and senior police officers. The new Regulations came into force on 31 March 2010 and require more detailed information to be disclosed in relation to Senior Officers of the Council. The new disclosure is provided in Note 11 pages 71to 73 of the single entity accounts.

The changes for PFI and local taxation are required to be applied retrospectively and the accounts for 2008/09, together with the relevant disclosure notes, have been restated. Note 1 to the accounts, page 63 outlines the impact in more detail.

BVACOP

6. The BVACOP for 2009 has removed the service category 'Court and Probation Services'. These costs are now required to be shown within 'Central Services to the Public'.

Other issues affecting the Accounts:

7. Housing Stock transfer
The Council completed the transfer of its Housing stock to Plymouth Community Homes (PCH) on 20 November 2009. As part of the transfer arrangements, the building maintenance and manufacturing trading operations were also transferred.

The stock transfer has had a major impact on the Council's accounts for 2009/10 and where appropriate comments have been included within the individual notes to the accounts.

8. Sale of CityBus
The Council sold its shareholding in its subsidiary company, Plymouth Citybus Ltd on 1 December 2009 to Go Ahead Group PLC. The main impact of the sale is on the Council's group accounts pages 147 to 159.

9. Trust Schools
Several of the Council's schools have effectively secured 'Trust' status during the year. Under trust status the school building and associated land passes to the Trustees of the school. Current Council policy is to remove transferred assets from the Council's Balance Sheet upon formal legal transfer. Due to a number of outstanding legal issues the legal transfer has not yet been completed for 4 school trusts. However in accordance with FRS5 substance over form test the Council's 'interest' in these schools has been revalued to Nil and the Balance Sheet carrying values have been adjusted as appropriate.

10. Capital Financing Requirement
The Council has included capital grants unapplied within the Capital Financing Requirement (CFR) since the introduction of the prudential capital financing regime in 2004, which has understated the annual statutory Minimum Revenue Provision (MRP) charge. The correct treatment has been applied in 2009/10 and an additional MRP payment of £1.637m has been made in the accounts. Note 23.7 page 93 shows the implication on the CFR from this amendment.

Future Accounting Developments – Public Sector Conversion to International Financial Reporting Standards

In the 2007 Budget Report the Government announced that the public sector would move from reporting under UK Generally Accepted Accounting Practice (GAAP) to adopting International Financial Reporting Standards (IFRS). The aim is to provide consistency and comparability between financial reports in the global economy and to follow private sector best practice.

The majority of the public sector will be required to produce their accounts on an IFRS basis in 2009/10. However, the start date for local authorities is not until 1 April 2010 due to the requirements to amended statutory Regulations where necessary in order to mitigate where possible any impact on the council tax. Therefore the first set of IFRS financial statements for local government will be published for the year 2010/11.

CIPFA have now published an IFRS-based Code of Practice, which will replace the current SORP. The Authority is well advanced with the necessary arrangements to meet the required deadline and regular progress reports have been presented to the Audit Committee over the last year.

The Key stages for IFRS implementation are:-

- the construction of the opening IFRS balance sheet at 1 April 2009;
- production of comparative data for 2009/10, and
- 2010/11 compliant IFRS financial statements within the statutory timetable, 30 June 2011.

OVERVIEW OF THE ACCOUNTING STATEMENTS

A full list of the Authority's accounting statements for the year 2009/10 is set out in the contents page at the beginning of this document. The Statements contain a number of technical terms, many of which are explained in the Glossary at the end of this document. The main statements are explained below:

- **The Statement of Accounting Policies (pages 24-43)**
  Accounting Polices are the principles, bases, conventions, rules and practices applied by the authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves.

- **The Annual Governance Statement (pages 45-55)**
  The Annual Governance Statement summarises the Council's internal control framework and outlines the process in place for maintaining a continuous review of the internal control arrangements that operate to ensure public money is safeguarded, properly accounted for and used economically, efficiently and effectively, and to give assurance that any weaknesses identified are being addressed.

- **The Income and Expenditure Account (page 56)**
  This Account summarises resources that have been generated and consumed in providing services and managing the Council during the year.

- **The Statement of Movement on the General Fund Balance (page 57)**
  This reconciliation Statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

- **The Statement of Total Recognised Gains and Losses (page 58)**
  This Statement brings together all the gains and losses of the Council for the year.

- **The Council's Balance Sheet (pages 59 and 60)**
  The Balance Sheet sets out the financial position of the Council as at 31 March 2010.

- **The Cashflow Statement (pages 61)**
  This Statement summarises the inflows and outflows of cash arising from the Council's activities for the year.

- **The Housing Revenue Income and Expenditure Account (page 131)**
  This summarises the transactions relating to the Council's housing stock. The Housing Revenue Account (HRA) must be a ring-fenced account, by law, where rental income generated from its housing stock is used to manage and maintain that stock.

  Although the Council transferred its housing stock to Plymouth Community Homes (PCH) on the 20 November 2009, the HRA has to remain open until all issues, such as the housing subsidy entitlement, have been finalised. Closure of the Account requires formal Ministerial consent.

- **The Statement of Movement on HRA Balance (page 132)**
  This reconciliation Statement summarises the differences between the outturn on the HRA Income and Expenditure Account and the HRA Working Balance.

- **The Collection Fund Account (page 143)**
  The Collection Fund is a separate statutory fund, which details the transactions in relation to Non-Domestic Rates (Business Rates) and the Council Tax, and the distribution to preceptors and the General Fund. The Collection Fund balances are consolidated with the other balances of the Council (as the billing authority) in the Council's Balance Sheet (pages 59 and 60).

- **Group Accounting Statements (pages 147-156)**
  The Council has interests in a number of related companies. The Group Accounts detail the financial results of the local authority group i.e., the authority and its major subsidiaries, associates and joint ventures.

REVIEW OF 2009/10

The Council agreed its annual budget for 2009/10 on 2 March 2009 at £196.525m net and during the year both Cabinet and Overview and Scrutiny Management Board have received bi-monthly budget and performance monitoring reports identifying variances against the approved budget. The final report for 2009/10 was presented to Cabinet on 8 June 2010. The budget and subsequent monitoring reports are based on the Council's management structure. At the end of the year a number of presentational and accounting entries are made to the management accounts in order to take account of the requirements of the SORP and produce the statutory Statement of Accounts in a format consistent across all authorities.

The following pages summarise the Council's financial performance for the year and, where applicable, compares the management accounts to the statutory statements.

2009/10 saw the completion of a major transformational change project, the transfer of the housing stock to Plymouth Community Homes on 20 November 2009. The Council transferred 14,813 dwellings, 1,458 right to buy leases, 8 shared equity properties, 2,901 garages, 128 shops, 22 other commercial lettings, 9 housing offices and various other land holdings. In addition, a total of 512 staff transferred to the housing association under TUPE arrangements. The transfer has resulted in a reduction in asset values in the Balance Sheet of £547.677m, of which £546.375m related to properties attributable to the HRA. Further details of the transfer and its impact on the Income and Expenditure Account, Housing Revenue Account and Balance Sheet can be found in the notes to the accounts. Although the transfer was effectively for nil consideration, the Council has negotiated a share of future Right to Buy Receipts (RTB) and VAT shelter monies as part of the transfer arrangements. These receipts will be paid to the Council as a capital receipt.

The Council also completed the sale of its subsidiary Company, Plymouth Citybus Ltd on 1 December 2009. The sale resulted in a capital receipt of £18.775m (net). The capital receipt has been invested and will be utilised to fund future invest to save schemes.

Table 1 shows the Council's net expenditure for 2009/10 across each of the main accounts as reported to Cabinet on 8 June 2010, prior to the statutory adjustments.

Table 1

Council's Overall Expenditure for 2009/10			
Account	**Approved Net Budget £m**	**Final Outturn £m**	**Variance from Net Budget £m**
General Fund Revenue Account	196.525	195.010	(1.515)
Trading Accounts	(2.357)	(2.705)	0.282
Housing Revenue Account*	0.041	0.250	0.209
Capital Budget	92.208	92.221	0.013

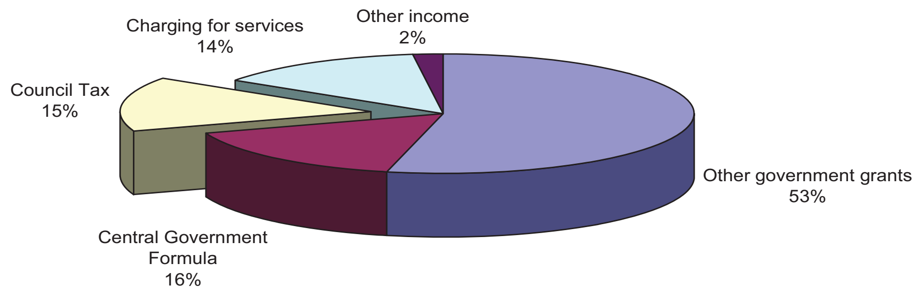
*adjusted for part year effect Note: ( ) denotes surplus/favourable

General Fund Revenue Account

The General Fund Revenue Account forms the main element of the Council's expenditure and covers the majority of the activities of the Council. The Council set an annual net budget of £196.525m for the year and allocated this across its management structure. The Council's final net expenditure for the year was £195.010m, a favourable variation of (£1.515m). This reduced to (£0.638m) after allowing for transfers to/from provisions required for the statutory accounts and transfers to reserves as agreed by Cabinet at its meeting of 8 June 2010. The final balance has been transferred to the Waste Balancing Fund (£0.400m) and the Pensions Reserve (£0.238m).

The revenue budget is financed from Council Tax, fees and charges, Government grants, external contributions and other income. The following diagram is helpful in understanding how the 2009/10 revenue budget was financed:-

2009/10 Income Sources



The Council set a band D Council tax for the year of £1,209.71 at its meeting of 2 March 2009.

Directorate Outturn for 2009/10

In order to improve the stability of revenue monitoring and increase accountability, Cabinet set Directors a target to deliver their budgets within a tolerance of no more than 1% overspend or 2% underspend for the year. The overall variance for the year, prior to end of year adjustments at (£1.515m) or (0.8%) was well within this target. Budget monitoring reports had indicated a departmental budget overspend for the year and in response Directors enacted a number of additional delivery plans to drive through budget savings. However a number of exceptional costs, such as enabling the housing stock transfer, and increased service pressures in areas such as safeguarding children and adult social care, made it difficult to achieve a balanced departmental budget. The departmental overspends were funded by a number of one off exceptional items of income, and further details are outlined below.

Table 2 shows the performance of each Directorate against the approved budget for the year.

Table 2

General Fund Outturn 2009/10				
Directorate	**Latest Approved Net Budget £'000**	**Actual Net Expenditure £'000**	**Variation From Approved Budget £'000**	**Variation From Approved Budget %**
Director for Children's Services	51,322	53,178	1,856	3.6%
Director for Community Services	102,294	104,179	1,885	1.8%
Director for Development & Regeneration	16,614	16,021	(593)	(3.6%)
Director for Corporate Support	35,347	34,372	(975)	(2.8%)
Chief Executive	2,378	2,129	(250)	(10.5%)
Corporate Items and Capital Financing	(11,208)	(14,647)	(3,439)	(30.6%)
End of year transfers to/(from) specific reserves and provisions		1,515	1,515	N/A
Total General Fund Budget	**196,747**	**196,747**	**0**	**0**
Transfers to/(from) Council's Working Balance	(222)	(222)	0	0
Final Budget Requirement	**196,525**	**196,525**	**0**	**0**

Note: ( ) denotes surplus/favourable

The Council's management accounts include the following exceptional items for the year:

- Local Authority Business Growth Incentive (LABGI) Grant

  The Authority was awarded £0.229m LABGI relating to the 2009/10 financial year.

- Fleming VAT reimbursements

  The Council has been working in partnership with PricewaterhouseCoopers (PWC) to reclaim VAT brought about through changes in legislation, which has successfully resulted in a ‘one-off’ repayment of £2.144m (net of PWC fees) from HM Customs and Excise.

- Planning and Housing Delivery Grant

  The approved budget for the year assumed Housing and Planning Delivery Grant of £0.375m for the year. The final grant allocation for the year was £0.370m more than anticipated.

- Seaside towns Funding

  A grant for £0.200m was received at the end of March 2010 under a new Government initiative. The grant will be carried forward to 2010/11 to be used to support the worklessness agenda, assess and promote economic opportunity, support the further development and roll out of activity which promotes place management, promotion of Plymouth as a destination and possibly World Cup support with regards economic opportunities that Host status brings. Furthermore, it relates directly to the creation of 7,000 new jobs identified in the Local Economic Strategy within the tourism sector and the Comprehensive Area Assessment (CAA) 'issues to think about' report relating to a lack of coherence for the Visitor Economy. It will also lever in significant match funding from the BID.

The more significant budget variations during the year were as follows:

	£’000
Increased number of Independent Sector Placements (children)	1,135
Pupil transport	601
Community based services for Adults	2,474
Fleet, vehicle & garage services	521
Waste disposal service	(824)
Concessionary fares	(515)
Car park Income	560
Reduction in commercial rental income	540
Waste management project team	(197)
Savings from review of distribution of Plymouth People	(130)
Housing benefit subsidy	(512)
Managed staffing savings	(2,807)
Capital financing budget	683
Energy contracts	(484)
Stock Transfer residual costs	362
Action plan to reduce spend in children’s care not achieved due to increased referrals following high profile local and national cases	1,162
Other (Net) variations and efficiencies across departments	(1,141)
Departmental Pressures	**1,428**
VAT reimbursement and other one off income (see above)	(2,948)
Net position prior to end of year transfers to/from provisions and reserves	**(1,515)**

As is the norm at the end of each financial year, a review of the Council's overall financial health position, looking not only at the outturn position for the year, but reviewing the adequacy of reserves and provisions in the light of pressures identified over the short to medium term has been undertaken and the following transfers to/from reserves and provisions have been made:

	£'000	**£'000**
Transfers to/from provisions:		
Insurance Provision	247	
Bad Debt Provision	352	
Section 117	(347)	252
Transfers to Reserves:		
Commuted Maintenance		150
Budget carry forwards:		
Care First	197	
Previously approved departmental budget underspends	78	
Seaside Town Grant	200	475
Waste Balancing Fund		400
Pensions Reserve		238
Total Transfers		**1,515**

Working Balance

The Working Balance at the start of the year was £11.739m. After taking into account net movements during the year of £0.222m, the Working Balance at 31 March 2010 was £11.517m as follows:

	£'000
Working Balance at start of year	11,739
Budgeted contribution to Working Balance 2009/10	128
	11,867
Less: Budgeted/approved transfers from Working Balance 2009/10	(350)
Working Balance at 31 March 10	**11,517**

A Working Balance of £11.517m equates to approximately 5.7% of the net revenue budget for 2010/11 and remains in line with the Medium Term Financial Strategy (MTFS) which is to maintain a Working Balance of at least 5%.

A reconciliation of the Management Accounts, reported to Cabinet on 8 June 2010, to the Statutory Statement shown on page 57 is shown below:

Reconciliation of Management Accounts to Statutory Accounts:

	£'000
Final position reported in Outturn report 8 June 2010	0
Add budgeted transfer to Working Balance	(128)
Less budgeted contribution from Working Balance to City Development Company	350
Net Transfer from Working Balance (Table 2)	**222**
Total Deficit for year as per I&E account (Page 56)	541,949
Net additional amount required by statute and non-statutory proper Practices to be debited or credited to General Fund Balance for year (Page 57)	(541,727)
Decrease in General Fund Balance for Year	**222**

Trading Accounts

The Council continues to operate a number of trading operations, although for internal trading operations such as catering and building cleaning the trading outturn is included within the relevant departmental figures. However some continue to be operated as separate trading or ring fenced accounts and for which separate reserve accounts are maintained, the main ones being:

- Off Street Parking
- On street car parking
- Street Trading
- Pannier Market
- Taxi Trade

Surpluses and deficits from these trading operations are transferred to or from the Trading Reserve accounts.

The final position on the trading accounts is shown in table 3.

Table 3

Trading Activity	Trading Estimates 2009/10 £'000	Final Trading Position for 2009/10 £'000	Variation to Estimate £'000
City Market	138	108	(30)
Off Street Parking	(1,125)	(860)	265
On Street Parking	(1,349)	(1,202)	147
Street Trading	0	0	0
Taxi Trade	(21)	(121)	(100)
Total Trading	**(2,357)**	**(2,075)**	**282**

Trading accounts generated a surplus of £2.075m against an original budgeted surplus of £2.357m, a reduction of £0.282m.

The trading accounts continue to be affected by recessionary pressures, with rental income at the market, and car park income falling below budget expectations. The loss of income is partially offset by savings in employee and repairs and maintenance costs.

Housing Revenue Account (HRA)

Although the Council transferred its housing stock on 20 November 2009, the Council is still required to maintain a Housing Revenue Account (HRA) until formal consent to close the account has been given by the Secretary of State.

The final position on the HRA for 2009/10 is summarised in Table 4. In the main transactions relate to the part year period 1 April 2009 to 20 November 2009, and the budget has been adjusted for the part year for comparison purposes. Formal consent to close the HRA will be sought once the final subsidy claim for 2009/10 has been certified by the external auditor. This is not likely to be until towards the end of 2010/11.

As part of the stock transfer financial arrangements, the DCLG repaid £91.37m of the Council's Public Works Loan Board (PWLB) debt. As a result the Council was issued with a draft 'special' Subsidy Determination in early June 2010. This determination has resulted in an increase in the amount of subsidy to be repaid to the national subsidy pool, increasing the deficit for the year to (£0.250m), compared to that reported to Cabinet on 8 June 2010 which indicated a deficit of £0.026m for the year. The Council is still awaiting a special determination for the HRA Item 8 charge which may yet result in a further adjustment to the accounts.

The deficit will be met from the HRA Working Balance, reducing the Working Balance to £1.792m at 31 March 2010. The HRA Working Balance will transfer to the General Fund once formal Ministerial consent to close the HRA has been obtained.

The movement in income and expenditure on the Housing Revenue Account against budget is summarised in table 4 below:

Table 4

Housing Revenue Account 2009/10				
	Original Approved Net Budget £'000	**Adjusted Budget for Stock Transfer £'000**	**Actual Net Expenditure £'000**	**Variation from Adjusted Budget £'000**
Income	(45,556)	(28,582)	(28,469)	113
Expenditure	45,622	28,623	28,719	96
Surplus for year	**66**	**41**	**250**	**209**

Note: ( ) denotes surplus/favourable

Cabinet approved an average rent increase of 5.88%, giving an average rent of £57.73, for 2009/10 on 20 January 2009.

However, on 6 March 2009, the Minister for Housing outlined proposals to implement a reduction in the national average guideline rent increase for local authority tenants. The original average increase in guideline rent published on 18 December 2009 in the Housing Revenue Account Subsidy Determination 2009/10 was 6.2%. The proposed new average guideline rent increase for 2009/10 was reduced to 3.1%.

In the light of the pending stock transfer and the potential implications on the future income streams on Plymouth Community Homes' business plan, Plymouth sought Government approval to implement the reduced rent increase by means of granting tenants a rent free week. The rent free week was applied to accounts across a 4 week period during August 2009. The average rent for the year reduced to £56.09 an increase of 3%.

During 2009/10 the Council removed the service charge relating to gas servicing and refunded tenants amounts collected under this charge in previous years.

The main variations arising within the HRA are:

- an increase in repairs spend of £0.697m offset by an improvement in the building trading surplus of (£0.346m)
- a reduction in rental income of 0.526m as a result of the rent free week, offset by a favourable variation in subsidy receivable
- An amendment to the special subsidy determinations resulting in an increase in subsidy payable to the national pool.

Income Collection

The table below shows the Council's income collection performance for the year.

Table 5

Type of debt	Actual % 2007/08	Actual % 2008/09	AE Quartile	Budgeted income 2009/10*	Target % 2009/10	Year end Position 2009/10
Council Tax	92.5%	94.2%	4	£91.018m	96.0%	95.2%
NNDR	97.6%	96.7%	2	£79.666m	97.0%	96.0%
Housing Rents	97.3%	96.4%	4	£40.274m	98.5%	N/A$
Sundry Debt⮙	85.9%	86.9%	n/a	£60.000m #	92.5%	88.0%
Commercial Rent (general fund)	*n/a*	*80.8%*	*n/a*	*£5.000m#*	*92.5%*	*85.0%*
Trade Waste	*n/a*	*87.5%*	*n/a*	*£1.200m#*	*94.0%*	*92.0%*
Adult Residential Care	*n/a*	*90.3%*	*n/a*	*£9.000m#*	*93.0%*	*92.0%*

Sundry debt fluctuates during the year but figures shown are an average per annum for a rolling 12 month period

$ No longer reported due to the transfer of responsibility to PCH following the transfer of Housing Stock during 2009/10

⮙ *All general fund sundry debt including the key areas (key areas are analysed and are shown in italics)*

Local Taxation

Council Tax –Target 96.0%

- In year collection (Apr–Mar 10) was 95.2%. £86.2m collected against £90.5m raised. The collection rate is slightly in excess of the forecast rate of 95.0% previously reported but 0.8% less than the original target.

NNDR - Target 97.0%

- In year collection (Apr–Mar 10) was 96%. £74.7m collected against £77.8m raised. The collection rate was 0.7% less than the forecast rate of 96.7% previously reported and 1% less than the original target.

Sundry Debt collection – Target 92.5%

- The collection rate for all relevant debt is 88% compared to 87% for the same period last year. Although an increase of 1% for the comparable period it is 4.5% less than the original target and 3.5% less than the previous forecast of 91.5%. It should be noted that the amount of debt collected within 30 days improved by 5% and there was a 0.6% increase in the level of debt raised.
- In year collection (Apr 09-Mar 10) is 85%. £36.8m collected against £43.3m raised
- >30 days shows collection of 96%. £35m collected against £36.3m raised

Key areas

<u>Adult residential and non residential care - Target 93.0%</u>

- The collection rate for all relevant debt is 92% (1% below the original target and in line with the previous forecast) compared to 90% for the same period last year
- In year collection (Apr 09-Mar 10) is 92%. £10.2m collected against £11.1m raised
- >30 days shows collection of 95%. £9.7m collected against £10.2m raised

<u>Commercial Rent - Target 92.5%</u>

- The collection rate for all relevant debt is 85% compared to 81% for the same period last year. This is 3% less than the previous forecast and 7.2% less than the original target
- In year collection (Apr 09-Mar 10) is 86%. £4.6m collected against £5.4m raised
- >30 days shows collection of 98%. £4m collected against £4.1m raised

<u>Trade Waste - Target 94.0%</u>

- The collection rate for all relevant debt is 92% compared to 87% for the same period last year which is a significant improvement but 2% lower than the original and latest forecast target of 94%
- In year collection (Apr 09–Mar 10) is 83%. £1m collected against £1.2m raised
- >30 days shows a collection of 99%. £0.993m collected against £1m raised

Capital

The Council’s capital programme for 2009/10 was originally approved at £92.209m. Capital expenditure generally relates to the creation of fixed assets and other items with a useful life or benefit of greater than one year. In many instances capital expenditure on a scheme will extend beyond one year and it is therefore normal for there to be variations in the programme during the year. The final programme for the year, as approved by Council at its meeting of 1 March 2010 was £99.822m. The full movement on the programme during the year can be summarised as follows:

	£'000
Original Budget	92,209
Movement in year:	
Slippage from 2008/09	5,380
New Approvals	12,972
Reprofiling and Slippage into 2010/11	(8,819)
Other Variations to scheme costs	(1,920)
Total Final Council Capital Programme 2009/10	**99,822**

The final capital spend for the year was £92.221m. Table 6 shows details of the performance for each directorate in terms of the achievement of the capital programme against budget.

Table 6

Capital Programme 2009/10				
Directorate	**Original Budget £'000**	**Revised Budget £'000**	**Outturn £'000**	**Variation £'000**
Corporate Support	2,065	10,242	9,217	(1,025)
Chief Executive	0	0	0	0
Development and Regeneration	20,932	21,187	17,251	(3,936)
Children's Services	52,057	53,771	49,863	(3,908)
Community Services	9,932	6,631	7,329	698
Housing Revenue Account	7,222	7,991	8,561	570
Total	**92,209**	**99,822**	**92,221**	**(7,601)**

Note: ( ) denotes surplus/favourable

The Corporate Support outturn includes a sum of £7.166m using approved Capitalisation Directions as follows:

	£'000
Redundancy	1,466
Potential losses Icelandic banks	5,700
	7,166

The Capital Programme was financed as follows:

	£'000
Capital receipts	5,748
Loans	32,626
Capital Grants & Contributions	47,229
Revenue and other funds	6,618
Total Financing	**92,221**

The main sources of capital grant funding are: South West Regional Development Agency (SWRDA), English Heritage, Department for Childrens and Families (inc Standards Fund), Department for Transport Section 56, Department for Communities and Local Government (DCLG) (including Private Sector Renewal grant and Disabled Facilities grant), Public Sector Agreement reward grant, the Big Lottery Fund and Section 106 developer's contributions. Further details of capital grants received in the year are given in note 21.4 on page 85.

At the end of the year the Council has £28.154m of grant and contributions available for financing the capital programme, including £6.658m of Section 106 contributions from developers.

As in previous years, capital receipts were set aside this year in order to replenish the PCL account and these were substituted by unsupported borrowing to ensure there was no overall impact on the programme. The transfer of £0.638m in 2009/10 has fully restored the PCL by the required £34.4m.

<u>The major capital projects in 2009/10 were:</u>

1. Spend on new Assets Acquired or Under Construction at 31 March 2010 and added to Balance Sheet at year end was:

    - Estover Community College – replacement school - £13.385m
    - Life Centre - £3.411m
    - Efford replacement school (Plym View / Highfield) - £2.987m
    - West End Scheme - £2.742m
    - Chelson Meadow works - £2.389m
    - Montpelier School Phase 2 - £1.966
    - Works at Gydinia Way - £1.355m
    - New school – Beechwood £0.581m
    - Mayflower Community School – new school - £5.123m
    - Shakespeare Primary – new school - £1.609m

2. Spend on improvement or Enhancement to existing Assets - assets revalued at 31 March 2010 and carrying value on Balance Sheet adjusted as appropriate:

    - Schools amalgamation- Oakwood (Langley) - £7.494m
    - Devonport Guildhall enhancements - £1.270m
    - Plymouth High School for Girls learning centre - £1.197m

3. Other Expenditure

    - Plymstock School tented sports hall - £0.711m
    - Disabled Facilities Grant - £1.188m
    - Devonport Library - £1.339m
    - Capital contribution to PFI scheme- £2.600m
    - Capitalisation Directions £7.166m

Income from Sale of Assets and Loan repayments

During the year the Council received £22.957m from the sale of Council assets and loan repayments as follows:-

	£'000
HRA – Council House Sales	776
Loan repayments	381
Surplus Assets disposals	2,698
Citybus sale	18,755
Stock Transfer Right to Buy (RTB) & Vat shelter	347
	22,957

Usable receipts totalling £5.376m were brought forward from 2008/09, giving total usable receipts for the year of £28.333m.

The Council was required to pay a sum of £0.564m to the Department Communities and Local Government (DCLG) in accordance with Housing Capital Receipts pooling requirements. The Council used £0.024m to fund Right to Buy costs and £5.748m to finance capital expenditure during 2009/10.

Receipts totalling £0.638m were set aside to replenish the PCL.

The Citybus and stock transfer receipts have been ringfenced for future policy initiatives/invest to save schemes yet to be agreed, leaving £2.437m available to fund schemes within the Medium Term Capital Programme.

Treasury Management Activities

In accordance with the Council's treasury management strategy for 2009/10, Council Officers actively pursed options to reduce the level of investments through reducing loans wherever feasible. At 31 March 2010, the Council's investments had reduced from £213.800m at 31 March 2009 to £153.051m and its borrowings from £370.383m to £266.559m.

External Borrowing

At the year end, borrowing from external lenders totalled £266.559m, as shown in Table 7. This should be viewed in relation to the value of the Council's operational land and buildings and investment properties, which have a net book value of £781.080m at the 31 March 2010.

The SORP 2009 has introduced changes to the accounting for PFI schemes, and now requires qualifying schemes to be included within the Council's Balance Sheet. The Council is however required to set up a matching long term liability reflecting the outstanding payments to the provider over the term of the contract. This liability is seen as a credit arrangement and increases the Council's total debt and must be taken into account within the statutory borrowing limits. The Council has one PFI scheme, the contract with Pyramid Consortium to build and run the schools at Woodview campus and Riverside.

Table 7

	Principal O/S £'000	Average Rate %
PWLB (Public Works Loan Board)	28,889	5.8084
Market Loans	130,000	4.4202
Bonds	83	3.5574
Temporary Loans	73,650	0.3685
Total Borrowing:	**232,622**	**3.3095**
Add Devon Debt @ 31/03/10	**33,937**	**5.2395**
Total Loan Debt 31/03/10	**266,559**	**3.5552**
PFI	**33,156**	**8.73**
Total Debt 31/03/10	**299,715**	

The borrowing limits for 2009/10, originally approved by Council in March 2009, as updated for the inclusion of the PFI scheme in March 2010, were as follows:

- Authorised limits £495m
- Operational Boundary £465m

At the end of March 2010 the Council's actual borrowing stood at £266.559m. This included additional short-term loans taken during February and March deposited in call accounts to allow for available funds to cover the possible repayment of the pre LGR debt, administered by Devon County Council, during 2010/11.

Following the Stock transfer, the Department of Communities and Local Government (DCLG) repaid the HRA proportion of the Council's Public Works Loan Board debt totalling £91.37m, together with an early redemption premium of £25.94m which has led to a significant reduction in the Council's debt. Whilst the reduction in debt is a positive step, the Council's revised debt portfolio has a significant proportion of market loans which will need to be addressed over time. The Council did not take any new long term borrowing during the year. Overall there has been a reduction in borrowing of £103.824m since 1 April 2009 reflecting the Council's policy to reduce debt.

The average interest rate on the debt has reduced over the course of the year from 3.7901% to 3.3095%. This rate reflects the position at the end of each financial year (i.e. at 31 March for 2009 and 2010). The reduction in rates is due to the repayment of PWLB loans replaced with considerably lower rate short-term temporary borrowing and any additional borrowing requirement in the year also taken in short-term borrowing. Loan transactions were taken at various times throughout the year at various rates and, taking all transactions in the year, the overall average borrowing rate for 2009/10 was 4.31% compared with a rate of 4.51% for 2008/09. External Interest payments for the year came to £11.507m against a budget of £11.909m, a favourable variation of (£0.402m).

Investments

At 31 March 2010 the Council held investments of £153.051m. The Council manages its investments in house and invests with institutions on the Council's approved lending list. During 2009/10 lending has been restricted to: other local authorities, the Government Debt Management Office or UK banks backed by the Government Credit Guarantee scheme, and restricting the maximum investment term to 12 months. The Council continues to balance its investment portfolio in terms of risk and return by using a mix of call accounts, which enable immediate access to funds, together with longer term investments of up to 364 days which pay higher investment returns.

The Council's treasury management officers work to a benchmark rate of return, the 7 day London Interbank Bid (LIBID) rate – which is the rate which can be achieved on the London interbank market for cash deposits of 7 days and is regarded as the standard benchmark. The 7 day rate is calculated on a daily basis and averaged for the year. The benchmark 7 day rate for the year was 0.45%. The actual rate achieved by the Council for the year was 3.4443%, reflecting residual longer term investments made prior to the banking crisis. An average rate of 1.3% was achieved for new investments in the year against a budget of 1%. Investment interest received for the year was £5.353m against a budget of £5.031m, a favourable variation for the year of (£0.322m).

Icelandic bank Update

The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

Heritable Bank £3m
During the year the Council received 3 dividend payments from the administrators of Heritable bank, totaling £1,049,400, plus interest of £53,503. This represents a recovery rate of 34.98%. Based on current projections from the administrators a total recovery of between 79% to 85% is expected with dividends continuing on a quarterly basis until September 2012.

Glitnir £6m
The Winding up Board for Glitnir have not accepted local authority deposits as "priority status" claims. The Council has through the Director of Corporate Support and Assistant Director of Democracy and Governance instructed Bevan Brittan Solicitors (and through them Icelandic and English Counsel) to act for the authority in pursuing our claim through the Icelandic courts. Bevan Brittan, (through the auspices of the LGA) are also acting for other public bodies allowing us to avoid duplication and share costs. This process is expected to take some time with a final ruling on our priority status unlikely to be forthcoming until 2011. The anticipated recovery for priority status remains at 100% but falls to 29% for non-priority claims.

Landsbanki £4m
Unlike Glitnir, the Winding up Board for Landsbanki have agreed to the priority creditor status for local authorities but have received a number of objections to this decision from other creditors which will need to be resolved through the Icelandic courts. As with Glitnir, the Council has instructed Bevan Brittan Solicitors (and through them Icelandic and English Counsel) to act for the authority in pursuing our claim through the courts. The latest creditor reports indicate a recovery of 95% for priority claims and 38% for non-priority claims. No payments will be made until the litigation has been concluded, which is unlikely to be until 2011.

Capitalisation Directions
On 31 January the Council received confirmation that the Capitalisation Direction application for the potential Icelandic bank losses had been approved in the sum of £5.7m. Although the Council is not required to account for any losses in its accounts until 2010/11 it can use the Capitalisation Direction to bring the losses into its accounts during 2009/10, and this has been approved by Cabinet. By taking this action, the Council will minimise the impact of any final loss by spreading the loss over a 20 year period.

The situation with regard to the recovery of monies invested in Icelandic Banks continues to be subject to much uncertainty as outlined above. The impairment charge made to the accounts for 2009/10 was £5.904m, however the impairment charge required for accounting purposes should in no way be taken to assume this will be the final outcome. The Council, working with the LGA and Bevan Brittan remain committed to maximising the recovery of it's investments.

Pension Liabilities

Plymouth Council employees are eligible to join the Local Government Pension Scheme (LGPS) which is managed by Devon County Council on behalf of the Devon Authorities. The accounting requirements of Financial Reporting Standard (FRS) 17 has resulted in a pension liability of £449.381m being reflected in the Council's Balance Sheet. This represents Plymouth City Council's liability to the Local Government Pension Scheme (LGPS). In addition, the Council discloses a long-term creditor of £20.166m on the Balance Sheet. This represents its share of Devon County Council's ongoing liability to pay enhanced pension costs that existed at the time of Local Government Reorganisation in 1998. These amounts are matched by a pensions reserve and therefore have no impact on the Council's revenue balances.

Further details are disclosed in:

- the Accounting Policies section of this document on pages 29-31
- the notes to the Accounts pages 119-123.

The level of contributions required to be made by the Council into the fund are set by independent actuaries. The contribution levels are reviewed every three years following a triennial review of the fund by the actuaries. The last triennial review was completed by the Actuaries in 2007/08 with changes to pension contributions becoming effective from 1 April 2008. The next review will be undertaken during 2010/11 with changes to rates becoming effective 1 April 2011.

The current contribution rate is based on 19.4% of pensionable salary costs for those employees in the Devon pension scheme.

The Council is required to ensure the pensions fund for staff transferring under TUPE arrangements is fully funded as at transfer date. During the year 512 staff transferred to PCH, of which 463 were in the pensions scheme. A deficit of £23.67m as at transfer date was attributable to transferring staff, requiring a notional transfer of pensions fund assets of £23.67m from PCC to PCH.

The Council is expecting a significant increase in its contribution rates following the triennial review, as a result of falling investment returns on the pensions fund and residual deficits following the transfer of staff to PCH and the sale of Citybus.

Group Accounts

The Council has interests in a number of related companies, which may take the form of subsidiaries, joint ventures or associates.

During 2009/10 the Council sold its interest in Plymouth Citybus to Go Ahead Group PLC. Citybus has been included within the Group Accounts for 2009/10 as a discontinued operation, based on management account transactions for the period 1 April 2009 to 1 December 2009.

The related companies consolidated with the Council's accounts are as follows:-

- Theatre Royal (Plymouth) Ltd- (Subsidiary)
- Plymouth Investment Partnerships Ltd- (Subsidiary)
- PLUSS- (Associate)
- Tamar Bridge and Torpoint Ferry Joint Committee- (Joint venture)
- Plymouth Citybus Ltd- (Discontinued Operation)

The accounts for these Companies have been fully consolidated with those of the Council to form the Council's Group Accounts.

The Group Accounts are shown on pages 147 to 159.

Partnership arrangements

The Council entered into a contract with Amey in December 2008 to manage the Council's Local Transport Plan (LTP) revenue works, including maintenance, preplanned and ad hoc works on highways, footpaths, gritting, walls etc. Amey also undertake design works and delivery of an element of the Council's capital Local Transport Plan programme.

The contract is for a period of 10 years with an estimated total value of approximately £150m. In 2009/10 Amey carried out work to the value of £11.78m under the contract.

Accountable Body - New Deal for Communities (NDC)

The Council is the Accountable Body for the New Deal for Communities (NDC) grant funding stream. As the Accountable Body, all grant funding is paid to the City Council which is then responsible for distributing the grant to partners and other external grant applicants in accordance with grant approvals made by the responsible bodies for delivery of the programmes. The NDC programme is delivered by the Devonport Regeneration Community Partnership (DRCP).

The NDC grant allocation for the year was £7.621m and this was fully spent. Details of the projects supported during the year will be published in September following the completion and submission of the 'Statement of Grant usage' to the external auditor.

The programme is now entering its final year. Cabinet have received and approved in principle the succession plan for DRCP and the necessary paperwork has been submitted to DCLG, who have undertaken their initial assessment of the proposals and queries and questions raised as a result are currently being addressed. The Council's approval remains subject to the following conditions of which conditions 1, and 2 still remain to be fully resolved.

1. Completion of financial checks to include Neighbourhood Manager costs, Devonport Community Land and Leisure Trusts and their asset bases.
2. Discussion and agreement to the letter of intent between DRCP and the City Council.
3. The approval of Communities & Local Government of the Devonport Community Land Trust Governance arrangements.
4. Completion of the review into the future use of Parkside by the Director for Corporate Support.
5. Subject to agreement that we will be engaged in the discussion between DRCP and DCLG during the period end of October 2009 to April 2010.

Funding for the programme in 2010/11 has been confirmed as £3.643m. Providing this is spent in full during the year, the full funding of £48m would have been drawn down over the 10 year programme. DRCP Board receive regular reports of outcomes against targets and a full report of the programme's achievements over the 10 year period will be published as part of the programme closure process.

In addition to the Government grant funding, the Council holds a sum of £1.164m in revenue reserve and £0.433m in capital resources on behalf of the DRCP Board, reflecting a local solution applied in 2007/08 whereby DRCP met elements of the Council's spend in Devonport from NDC grant in order to maximise the grant drawdown in that year. This money remains ringfenced to support projects in the Devonport area as approved by the Board and must also be spent in full by 31 March 2011.

The Council does of course receive NDC grant funding towards its own revenue and capital schemes. The Council only includes NDC grant allocated towards Council revenue and capital schemes within its accounts. This treatment is in line with Accountancy Standard (FRS 5). Plymouth City Council received £4.264m NDC grant towards its schemes in 2009/10.

EXTERNAL ASSESSMENT

The Council's financial management was externally assessed during 2009 as part of Grant Thornton's Use of Resources (UoR) review. The Council was awarded a level 3 for managing finances and the following paragraphs represent an extract from the Grant Thornton report:

> "Overall, we have assessed the Council as having sound arrangements in place across all areas, with particularly strong performance in the 'managing finances' theme. We found good practice in many areas and, looking forward, the Council is in a strong position to build upon these to secure an improved assessment once sustainable outcomes can be demonstrated across all of the Council's activities.
>
> The scores achieved by Plymouth City Council are fairly strong when compared to the assessments of Council's nationally and reflects positively on the progress being made by the Council in both improving its underlying arrangements as well as delivering sustainable outcomes that meet the needs of the local community. The Council's strong performance needs to be considered against the backdrop of the new assessment criteria which has been designed to be more demanding, with an emphasis on demonstrating improved service delivery outcomes, rather than simply robust arrangements and improved outputs, which allowed councils to achieve higher assessment ratings in the past."

The annual assessment process of CAA and UoR has been stopped by the new Government. It is unclear what, if anything, will replace the CAA and UoR external assessments in future years.

FINANCIAL POSITION OF THE COUNCIL

At 31 March 2010 the Council's Working Balance stood at £11.517m or 5.7% of the net revenue budget for 2010/11. Whilst there is no formal guidance on the level of working balance that should be held by an authority, benchmarking with other Unitary Councils continues to indicate that the average working balance across Unitary Authorities remains between 5% and 6%.

In addition to the Working Balance, the Council has a number of earmarked reserves, set up specifically to meet the costs of future spending plans or known budget pressures. At 31 March 2010, the total earmarked reserves were £19.310m.

The Council also has a number of budget provisions set up to meet known liabilities. The main provisions include the insurance fund, Job Evaluation (JE) appeals, and reimbursement of gas servicing costs. Provisions held at 31 March 2010 totalled £10.770m. With the exception of the back dated pay award claims arising since 1 April 2008, where the Council has taken advantage of a statutory regulation to defer the impact on its revenue budget until the claims are settled, all monies held in provisions have already been charged to the Council's revenue budget.

The Council has disclosed a number of contingent assets and liabilities in the notes to the accounts. Contingent assets identify potential income that the Council may recover either as a result of legal action or reimbursement of overpayments, mainly to HM Revenues and Customs. This income is not currently included within the Council's revenue budget as it is not certain that it will be forthcoming. Contingent liabilities represent areas that may result in a financial liability to the Council but which cannot be quantified with any certainty both in terms of timing and amounts. These are kept under continual review with the contingent liabilities forming part of the Council's strategic risk register and regularly reported to Audit Committee.

The Council's has continued to improve its financial position as demonstrated by the external assessment. Regular reviews of the Council's financial health, in particular a review of reserves and provisions, are undertaken during the year.

Looking Forward to the Medium Term

The Council is facing a series of challenging issues into the medium term. The immediate grant budget cuts just announced, leading into the emergency budget and a new three year funding settlement for 2011/12 to 2013/14 with unprecedented reductions in resources forecast and a new national government with a new set of priorities combined with increasing pressure faced by the Council for demands on services will require the Council to have robust plans if it is to continue to improve.

In response to this, the Corporate Management Team is working with the Council's Cabinet members to develop a transformational change programme that fundamentally challenges the organisation's culture, structure and approach to service delivery. This change programme, which will include proposals for 'invest to save' will be finalised, progressed and reported on throughout 2010/11.

An improved corporate reporting process, focusing on a greater integration of performance and finance information, including partnership performance, is being developed by Officers. A return to quarterly reporting of joint finance and performance information will be implemented, bringing the formal reporting into line with the reporting of the LSP. The formal joint reports will be supplemented by monthly scorecards to Corporate and Departmental Management teams demonstrating progress. The emphasis will be one of looking forward: updating the Medium Term Financial Strategy regularly as things change will ensure the Council is able to proactively plan for the future.

The Council also remains committed to a significant capital investment programme despite the current economic climate. The Council, engaging with partners in major regeneration of the City, will not only contribute towards delivering improvement priorities, but will also help to sustain much needed work opportunities in the local area (for example, the construction industry).
Significant schemes programmed to be delivered by 2014 include:

- £37.5m on a state of the art new college at Estover;
- £14.2m on improving Schools in the Southern Way Federation;
- £8.6m for a new School at Efford;
- £6m on the modernisation of Mill Ford special School;
- £22m on improving transportation Plymouth (Local Transport Plan);
- £60m on improving transport access in Eastern side of the City Centre;
- £3.2m on regenerating the West End;
- £3.88m on bringing Devonport People's Park 'back to life';
- £46.5m on the Life Centre – the biggest investment in leisure facilities in Plymouth for many years.

In addition to the approved capital programme, the Council continues to develop its Building Schools for the Future submission which will generate additional investment of approximately £70m into five secondary Schools. We are also developing our long term waste disposal solution with Torbay and Devon County Councils, building a multi million pound waste to energy plant.

CONCLUDING REMARKS

The Council is required to complete and seek approval of the Accounts by a statutory deadline of 30 June each year. These accounts were approved by members of the Audit Committee on 28 June 2010 and signed by the Member presiding over the meeting.

The summary Statement of Accounts will be published in the autumn edition of Plymouth People and work is ongoing to produce a full annual report for early October, which will be available on the Council's website.

> Further information is available on the Council's web-site : www.plymouth.gov.uk/homepage/councilanddemocracy/accounts.htm
>
> or from Sandra Wilson, Corporate Accountancy and Finance Manager, Civic Centre, Plymouth, PL1 2AA. Telephone: (01752) 304942. Email: corporateaccountancy@plymouth.gov.uk

The Council's statutory responsibilities regarding these Accounts are laid out in the section entitled 'Statement of Responsibilities for the Statement of Accounts' on page 44.

A BROOME
Director for Corporate Support
Civic Centre
PLYMOUTH
PL1 2AA

22 June 2010

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