2024/25 DRAFT STATEMENT OF ACCOUNT
(unaudited)

PLYMOUTH CITY COUNCIL

1. Framework for Local Government Financial Reporting

1.1. Local authority accounts in the UK are prepared in accordance with the Code of Practice on Local Authority Accounting, developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) ("the Code"). The Code adapts International Financial Reporting Standards (IFRS) to reflect the specific financial reporting needs of local government bodies in the UK.

1.2. Local government accounts include the following core statements:

- Comprehensive Income and Expenditure Statement (CIES) - recording all revenue income and expenditure for the year
- Balance Sheet – showing the value of assets and liabilities held by the Council
- Cashflow Statement – showing movements in cash and cash equivalents for the Council. Complementing the CIES and Balance Sheet which are completed on an accruals basis.
- Movement in Reserves Statement – this is a local government specific statement. It shows how reserves have changed by removing accounting items in the CIES that are required by statute to not impact the Council's reserves, reconciling to the outturn position.

Notes to the Accounts provide further detail on individual line items in the core statements.

2. National Context

2.1. Up until the 28 February 2025, there was a significant backlog in the publication of audited accounts in local government. As at March 2024, there were 646 outstanding audit opinions for local authorities. In addition, only 41% of local authorities published draft accounts for 2023/24 by the statutory deadline of 31st May.

2.2. The backlog attracted significant national attention. Both the government and parliamentarians expressed concern and sought to understand the root causes and identify potential solutions. The Public Accounts Committee conducted an inquiry into the timeliness of local audits, publishing its findings in March 2023. Additionally, the Ministry of Housing, Communities and Local Government (MHCLG) undertook a review of Financial Reporting and Audit in Local Authorities, culminating in a report released in February 2024.

2.3. The UK Government has since taken active steps to address what has been widely described as a "broken local audit system" in England. At its peak, the backlog exceeded 1,000 unaudited accounts, significantly undermining transparency, accountability, and public confidence in local governance.

2.4. To tackle this issue, the government introduced the Accounts and Audit (Amendment) Regulations 2024, which came into effect on 30 September 2024. These regulations introduced a revised reporting timetable covering all financial years up to and including 2027/28. Under the new framework, the deadline for publishing audited accounts for the 2024/25 financial year is 27 February 2026.

2.5. While acknowledging the exceptional nature of these measures, the government maintains that they are essential to restoring a robust, transparent, and accountable local audit framework.

3. Local Authority Accounting

3.1. The presentation of local authority accounts differs greatly to that of the private sector. Many of these differences occur due to legislative requirements for local government accounts and the recognition of costs for the purposes of budgeting and calculating the Council Tax. These differences mainly relate to the way the Council is required to account (or budget) for capital and pension costs.

3.2. Local authorities account for the revenue impact of capital in line with IFRS on the face of the Comprehensive Income and Expenditure Statement (CIES). This means including figures relating to movements in the value/cost of assets, including depreciation, revaluation, disposal and impairment. These entries are reversed out and replaced with an allowance for the consumption of capital, termed Minimum Revenue Provision (MRP). These "adjustments between accounting basis and funding basis under regulation" are shown in Note 10 to the unaudited accounts.

3.3. In terms of pension costs, local authorities are required to comply with an International Accounting Standard IAS 19 (Employee Benefits), which means accounting for pension liabilities when local authorities are committed to them, not when they are actually paid out. This includes showing movements in the value of pension scheme assets and liabilities.

3.4. The Council complies with IAS 19 and recognises the Council's share of the net liability of the Devon Local Government Pension Scheme (Devon LGPS) in the balance sheet. Within the CIES the 'Cost of Service' figures have been adjusted so they represent the true costs of pensions earned. As stated above, IAS 19 does not have any effect on the calculation of the Council Tax Requirement as the entries are reversed out and replaced by the cash contributions to the Pension Scheme, in an adjustment between accounting basis and funding basis under regulation.

4. International Financial Reporting Standard, IFRS 16 (Leases)

4.1 IFRS 16 (Leases) replaces the previous standard, IAS 17 (Leases), which governed the classification and accounting treatment of leases on the balance sheet. Under IAS 17, leases were categorised as either finance leases or operating leases, each with distinct accounting implications. Finance leases - where substantially all risks and rewards of ownership transferred to the lessee - were recognised on the balance sheet as both an asset and a corresponding liability. In contrast, operating leases - where ownership remained with the lessor - were not recognised on the balance sheet, but instead lease payments were expensed through the CIES as they became due. Although future lease obligations were disclosed in the notes to the financial statements, they were generally not recognised as liabilities, nor were the associated assets recorded.

4.2 IFRS 16 introduces a different approach to lease accounting by recognising a right-of-use asset for all qualifying leases, including those with nominal or "peppercorn" rents. This approach eliminates the previous distinction between finance and operating leases for lessees. Under IFRS 16, all leases - except those with a term of less than 12 months - are recognised on the balance sheet, regardless of the transfer of risks and rewards.

4.3. To implement the new standard, the Council has updated its accounting policies within the Statement of Accounts. The revised policy replaces the previous lease accounting guidance and is detailed under Accounting Policy 1.19 – Leases, on page 40.

4.4 In preparation for the implementation date of 1 April 2024, Finance conducted a comprehensive review of all lease arrangements. As a result, 59 land and building leases, 32 equipment leases, and

8 vehicle leases have been identified for recognition on the balance sheet. These leases were previously treated as operating leases and expensed through the CIES.

4.5 The Council also reviewed its Private Finance Initiative (PFI) lease models, in consultation with its treasury management advisers, Arlingclose, to assess the impact of IFRS 16. This review covered both the Schools PFI contracts and the Energy from Waste facility. The outcome was a net reduction of £10.985m in the net balance sheet value of PFI-related assets and liabilities.

4.5 The adoption of IFRS 16 also affects the Council's prudential indicators. The recognition of right-of-use (ROU) assets and corresponding lease liabilities increases the Council's reported borrowings, which in turn raises the Capital Financing Requirement (CFR) and the authorised debt limits. Further details are provided in Note 32 – Leases and Note 31 – Capital Expenditure and Capital Financing, both on page 101 of the accounts.

4.6 Implementing IFRS 16 has required significant effort to assess and interpret the financial implications of each lease agreement. As with any new accounting standard, a degree of professional judgement has been applied in line with available guidance. As this is a new disclosure in the 2024/25 Statement of Accounts, it will be subject to external audit review.

5. Draft Statement of Accounts 2024/25

5.1. The draft (unaudited) Statement of Accounts for the financial year 2024/25 were published on 30 June 2025, in accordance with statutory requirements. The public inspection period commenced on 1 July 2025.

5.2. Due to the accounting treatment required to be adopted for the 2019 pension restructure, the Council submitted a request for Exceptional Financial Support (EFS) to MHCLG. In February 2024 the Council were provided with an in-principle decision for EFS and confirmation that MHCLG were minded to approve a capitalisation direction. While discussions to finalise the arrangements are ongoing, further correspondence received in March 2025 provided sufficient assurance to the Section 151 Officer to proceed with the setting a balanced budget for 2025/26.

At the time of publishing the draft Statement of Accounts 2024/25, the Council had not yet received the formal capitalisation direction. As a result, the Working Fund Balance is currently reported as a negative £60.138 million. Upon receipt of the capitalisation direction, this balance will be adjusted to reflect a positive position of £11.862 million.

5.3. The Council delivered a breakeven outturn for 2024/25, with total net expenditure aligning with the approved net budget of £241.622 million. This budget was formally approved by Full Council on 8 March 2024. A reconciliation between the budgeted outturn and the net expenditure reported in the CIES is provided in Note 7 – Expenditure and Funding Analysis, located on page 52 of the accounts.

5.4. The Balance Sheet shows the authority's assets, liabilities and reserves. The reserves are split into usable and unusable reserves. The unusable reserves are not available to the Council but are part of their technical accounting requirements. These reserves are not available to use for service delivery at the reporting date. These reserves arise from either:

a. Statutory adjustments required to reconcile to the amounts chargeable to Council Tax in order to comply with legislation, or

b. Accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the surplus or deficit on the provision of services.

The Council has a positive Balance Sheet as at 31 March 2025, which means that the Council's assets are £435.198m greater than its liabilities. This reflects a downward movement of £40m from 2023/24 due to various movements within the Council's assets and liabilities.

5.5. The main movements on the Balance Sheet between 31 March 2024 and 31 March 2025 are summarised below:

5.5.1 Non-current Assets

- Property, Plant and Equipment has increased by £61.341m primarily due to the combination of both asset revaluation and the acquisition of new assets through the capital programme. Further details are provided in Note 15 of the Statement of Accounts..
- Investment Property has reduced by £4.251m due to valuation movements. Further details can be found in Note 17 to the Statement of Accounts.

5.5.2 Current Assets

- Short Term Debtors have decreased by £12.890m due to the recovery of money owed to the Council by government bodies. Further information is available in Note 19.1.
- Cash and Cash Equivalents have increased by £12.605m to £39.603m to reflect an increase in the short-term cash investments held at year end. Further notes on Financial Instruments can be found in Note 18 to the Statement of Accounts.

5.5.3 Current Liabilities

- Short Term Borrowing has increased by £66.509m. Borrowing is used to finance the Capital Programme in accordance with the 2024/25 approved budget and Treasury Management Strategy, and to provide liquidity to manage short-term working capital variations. Further detail can be found in Note 18 to the Statement of Accounts.
- Capital Grants Received in Advance have increased by £50.016m. Further details are provided in Note 29 to the Statement of Accounts.

5.5.4 Long Term Liabilities

- Long Term Borrowing has decreased by £19.765m, further details can be found in Note 18 to the Statement of Accounts.
- Long-term pension liabilities have increased by £3.171 million because of an accounting adjustment related to the application of the asset ceiling, as determined by the Scheme's actuaries, Barnett Waddingham. Further details are provided in Note 34 - Pensions, located on page 109 of the Statement of Accounts.
- Other Long-Term Liabilities have reduced by £10.733m which reflects a reduction in the long-term PFI liability due to the impact of IFRS16. Further information can be found in Note 20.3 to the Statement of Accounts.
- Grants Received in Advance – Capital have increased by £10.843m, mainly due to grants received from the Department for Transport. This movement is further explained in Note 29.1 of the Statement of Accounts.

5.5.5 Reserves

- Usable reserves are showing a net reduction of £19.685m, reflecting the release of £1.137m additional resource adjustments from prior year Council Tax collection plus a drawdown of £3.913m from reserves. In addition, the audit sign-off of the backlog of Statement of Accounts resulted in a reprofiling of the MRP charge with a corresponding release of £5.170m from the brought forward reserve. This agreed usage assisted in achieving a balanced budget position.

- A further £7.778 million reduction related to the Integrated Finance Reserve, jointly held with the NHS Devon Integrated Care Board (ICB), along with several smaller reserve movements.

Further details on the movement in earmarked reserves can be found in Note 12 to the Statement of Accounts.

- Unusable reserves have decreased by £20.407m. The unusable reserves are not available for revenue purposes to the Council but are part of their technical accounting requirements. The unusable reserves include, for example, the pension reserve, the capital adjustment account and the revaluation reserve. Further information on the unusable reserves is available in Note 22 to the Statement of Accounts.

- The Dedicated Schools Grant Adjustment Account has increased to £18.498m reflecting the significant accumulated deficit relating to the schools' budget. This is explained further within the accounts Note 22.6 on page 84.

6 Conclusion

The statement of accounts appended to this report are draft at this stage. Following completion of the external audit procedures by Grant Thornton, the Audit & Governance Committee will be presented with, and asked to approve, the audited Statement of Accounts 2024/25 at their meeting in January 2026, in advance of the backstop date of 27 February 2026.