

CITY OF PLYMOUTH

Subject: Statement of Accounts 2008/09

Committee: Audit Committee

Date: 25 September 2009

Cabinet Member: Councillor Bowyer
CMT Member: Director for Corporate Support

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Ref: ACCT/SW

Part: 1

Executive Summary:

The draft Statement of Accounts was approved by Audit committee at its meeting on 26 June 2009. The accounts have now been audited and the Audit Governance Report outlining the auditor's findings is being presented to this meeting.

Following the audit, there have been a few minor amendments to the Statements and there is now a requirement for Audit Committee to re-approve the accounts prior to the Statutory deadline of 30 September 2009.

Corporate Plan 2009- 2012

The Council's expenditure forms the basis on which the Corporate Plan can be delivered.

Implications for Medium Term Financial Plan and Resource Implications: Including Finance, Human IT and Land:

The 2008/09 final accounts will have implications on the Medium Term Financial Plan. The level of Working Balance and reserves will affect the level of funding available in future years and variations in Service Expenditure will also need to be reviewed to assess the effects on future years.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc:

N/A

Recommendations and Reasons for recommended action:

1. Audit Committee note the amendments made to the Statement of Accounts for 2008/09 as outlined in this report.
2. Audit Committee note the revision to the pensions net assets of £2.883m, and that, in agreement with the external auditor, the accounts have not been adjusted for this variance.
3. The Statement of Accounts for 2008/09 as now presented be formally re-approved.
4. The letter of representation attached at Appendix D is authorised and submitted to the auditor.

Alternative options considered and reasons for recommended action:

None – Statutory requirement to produce and approve the Statement of Accounts

Background papers:

Final Accounts Working Papers 2008/09
Budget Papers 2008/09
Statement of Recommended Practice 2008 (SORP)
Best Value Accounting Code of Practice 2008 (BVACoP)
Outturn Report to Cabinet 2 June 2009
Report to Audit Committee 26 June 2009 re draft Statement of Accounts

Sign off:

Fin	MC corp in 9000 04	Leg	DVS 1050	HR		AM		IT		Strat Proc	
Originating SMT Member: Malcolm Coe, AD Finance, Assets and Efficiency											

1. INTRODUCTION

- 1.1 The draft Statement of Accounts was approved by Audit Committee at its meeting of 26 June 2009. The formal audit commenced on 6 July 2009 and has been ongoing until now. The External Auditor's Governance Report, including the findings on the annual accounts audit is being presented to this meeting.
- 1.2 Some minor changes have been made to the Statements following discussions with the auditor and therefore the Accounts need to be re-approved by Audit Committee.
- 1.3 The Council is also required to identify and report on any post balance sheet events that have occurred since the date the original approval. The Statement of Accounts therefore includes all post balance sheet events up to and including the 25 September 2009.
- 1.4 As part of the final audit requirement and prior to the issue of the audit certificate, the Council is required to complete and sign a formal letter of representation and submit this to the auditor. In line with last year this letter may be signed by the Director of Corporate Support and the Chair of Audit Committee and is attached at Appendix C.
- 1.5 Council Officers would like to express their thanks to the Audit staff for their help and assistance in producing and finalising the Council's Statement of Accounts.

2. AMENDMENTS MADE TO THE ACCOUNTS

2.1 Debtors/Creditors

A payment of £123,567 in respect of a scheduled supporting people contribution relating to 2009/10 had been incorrectly included as a creditor in the Council's accounts for 2008/09 as a result of system interface timings. Whilst this had been identified prior to closedown and the expense removed from the Income and Expenditure account, this had been achieved by the raising of a corresponding debtor. This treatment has resulted in both the creditors and debtors balances on the balance sheet being overstated by £123,567. The balance sheet has been adjusted to correct this overstatement and the relevant disclosure notes updated.

2.2 Government Grants Deferred Account

When the Council receives a government grant and it has been used to finance capital expenditure, the government grant balance is deferred to the government grants applied account and it is amortised to revenue over the life of that asset that was purchased using the grant. In accordance with the Council's accounting policies, the amortisation is due to commence in the year following receipt, providing the asset has been brought into operation.

Whilst the grants received in 2007/08 had been correctly transferred to the government applied account the actual amortisation to revenue of a number of grants had inadvertently not been commenced in 2008/09.

This error has resulted in the net cost of services line in the Income and Expenditure Account and the government grants deferred account on the Balance Sheet being overstated by £314,130. The accounts and relevant disclosure notes have been adjusted.

2.3 Icelandic Bank Investments

The Council has now received more up to date information regarding potential recoveries of its investments in Icelandic banks. The anticipated recovery for Landsbanki is now forecast to be 83% (previously assumed at 95%).

However Act No44/2000 has now come into force in Iceland. Under this Act claims in Landsbanki and Glitnir may now include interest up to 22 April 2009. In cases where the maturity date is before this date, interest between maturity and 22 April will be credited at a penalty rate, and the rate currently applicable in Iceland is 22%.

In addition the first dividend payment in respect of Heritable Bank has been received at 16.13p, against an original estimate of 15p.

The net effect of all the changes is a decrease in the impairment charge resulting in a net reduction in the deficit on the Income and Expenditure Account of £388,174 and a corresponding increase in the total assets less liabilities on the Balance Sheet. The accounts and relevant disclosure notes have been adjusted for the latest position.

- 2.4 The revised statements are included at Appendix A with the amended disclosure notes attached at Appendix B. Overall the deficit on the Income and Expenditure Account has reduced by £0.702m to £189.552m, and the Council's net worth on the Balance Sheet has increased by £0.702m to £571.307m.

3. **AUDIT FINDINGS NOT ADJUSTED IN ACCOUNTS**

3.1 Pension Liability

In order to meet the tight timescale for approval of the accounts of 30 June, Local Authorities work on the best estimate of the pension liability as at 31 March. The actuary has confirmed that the audited net assets of the Devon pension fund, as at 31 March 2009, are £1,783 million. However, the assumed value of assets used by the actuary in the FRS 17 report to the scheduled and admitted bodies for the preparation of the draft accounts was £1,768 million. Therefore, there has been an underestimation of £14.7 million. Plymouth City Council's share of this difference has been calculated £2.663 million using the actuarial calculation of the percentage share of the assets.

The Council has no control over the calculation of the net pensions assets and Council Officers, with the agreement with the Auditor, have not amended the accounts for this variance.

4. POST BALANCE SHEET EVENTS

- 4.1 Events happening after the 31 March 2009 must be reflected in the accounts if they would have a material effect on the financial position, and there is a requirement that this date should be published in the accounts. The relevant date is the date the accounts were authorised by the Director of Corporate Support and for 2008/09 reporting purposes this is 25 September 2009.
- 4.2 The draft accounts already outlined the proposed sale by the Council of its shares in Plymouth Citybus. Work is ongoing and there is no further update to report at the present time.
- 4.3 At the end of 2008/09, the Council submitted several claims in respect of overpaid VAT in areas where HM Revenue & Customs (HMRC) has clarified the VAT liability of an activity as being a non-business or exempt supply (not subject to VAT), rather than a taxable supply as it had been previously treated, referred to as Fleming VAT claims. These claims are disclosed in the accounts as a contingent asset. The first of these claims has been accepted by HRMC and the Council has now received a sum of £0.477m, including simple interest, net of consultant's fees. As this reimbursement was after 31 March 2009 and the amounts relate to periods prior to 2008/09, the accounts have not been adjusted for this income but it has been disclosed as a note to the accounts. The actual re-imburement will be included in the figures for 2009/10.
- 4.4 The Council has also reviewed and updated the contingent liabilities in respect of contaminated land and the revised disclosure note is attached at Appendix C.

5. RECOMMENDATIONS

- 5.1 Audit Committee note the amendments made to the Statement of Accounts for 2008/09 as outlined in this report.
- 5.2 Audit Committee note the revision to the pensions net assets of £2.883m, and that, in agreement with the external auditor, the accounts have not been adjusted for this variance.
- 5.3 The Statement of Accounts for 2008/09 as now presented be formally re-approved.
- 5.4 The letter of representation attached at Appendix D is authorised and submitted to the auditor.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2007/08 Net Exp. £000		Note	2008/09 Gross Exp. £000	2008/09 Gross Inc. £000	2008/09 Net Exp. £000
	<u>Expenditure on General Fund Services:</u>				
4,479	Central Services to the Public		24,457	(19,953)	4,504
690	Court & Probation Services		782	(67)	715
	Cultural, Environmental, Regulatory & Planning Services		80,260	(22,823)	57,437
51,070	Adult Social care		88,710	(20,792)	67,918
60,958	Children's and Education Services		295,681	(219,723)	75,958
62,887	Highways & Transport Services		22,525	(4,364)	18,161
15,328	Housing-(Housing Revenue Account)		154,704	(47,095)	107,609
35,398	Housing Services- Other		98,290	(92,447)	5,843
9,173	Corporate & Democratic Core		5,760	(69)	5,691
9,621	Non Distributable Costs		8,475	0	8,475
7,206					
256,810	Net Cost of Services	4	779,644	(427,333)	352,311
	<u>Other Operating Income & Expenditure:</u>				
(689)	Loss/(gain) on Disposal of Fixed Assets	26.2			23,091
(8,817)	Other Income	6			(1,214)
168	Precepts & Levies				190
5	Trading Services - Pannier Market	5.2			209
15,699	Interest Payable and Similar Charges	8			19,986
	Contribution to Devon County Council Pre-Reorganisation Debt	32			1,473
1,534	Contribution of Housing Capital Receipts to Government Pool	7			962
4,117	Interest & Dividends Receivable				(15,932)
(11,621)	Pensions interest cost and expected return on pension assets				13,410
6,340					
263,546	Net Operating Expenditure				394,486
	Precept demanded from the Collection Fund	9			(88,239)
(83,419)	Net Collection Fund Adjustment re previous year's surplus				(213)
(1,142)	Revenue Support Grant				(12,305)
(13,294)	Area Based Grant	24.2			(14,988)
0	LABGI				(796)
(2,806)	Contribution from Non-Domestic Rate Pool				(88,393)
(79,213)					
83,672	TOTAL DEFICIT FOR THE YEAR				189,552

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance shows whether the Council has over- or under-spent against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2007/08 £000		Note	2008/09 £000
83,672	Deficit for the year on the Income and Expenditure Account		189,552
(87,063)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	21	(189,562)
(3,391)	(Increase)/Decrease in General Fund Balance for the Year		(10)
(1,279)	Movement in Schools Balances		(270)
(4,670)	Net Movement in General Balances		(280)
(15,940)	General Fund Balances Brought Forward		(20,610)
(20,610)	General Fund Balances Carried Forward		(20,890)
(8,881)	Amount of General Fund Balance held by schools under local management schemes		(9,151)
(11,729)	Amount of General Fund Balance generally available for new expenditure		(11,739)
(20,610)			(20,890)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This Statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit incurred on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

The changes to Financial Instruments introduced under SORP 2007 resulted in a number of entries being made to the General Fund Balance through the Statement of Movement in General Fund Balance (STMGFB). In accordance with Statutory Regulations, these entries are reversed out to the Financial Instruments Adjustment Account. The Financial Instrument Adjustment Account is included within the reserves section of the Balance Sheet and therefore movements to and from this account affect the net worth of the Council as stated on the Balance Sheet. However entries to and from this account in accordance with the Statutory Regulations are not reflected within the Income and Expenditure Account, and therefore an additional line has been added to the Statement of Total Recognised Gains and Losses in order to distinguish the movement in the Balance Sheet between actual gains and losses for the year, and the impact of the Statutory transactions via the Financial Instruments Adjustment Account.

2007/08 £000		Notes	2008/09 £000
83,672	Deficit for the year on the Income and Expenditure Account		189,552
(40,468)	Deficit/(surplus) arising on revaluation of fixed assets	37.1	(56,870)
(56,370)	Actuarial (gains)/losses on pension fund assets and liabilities		124,180
297	Attributable movement on the Collection Fund Balance		34
(12,869)	Total recognised (Gains)/losses for the year		256,896
9,903	Movement in Financial Instrument Adjustment via STMGFB	37.4	(1,695)
(2,966)	Net Movement in Worth as reflected on Balance Sheet		255,201

The Council has restated its Balance Sheet as at 31 March 2008 in respect of Pension liabilities in accordance with the implementation of the pensions SORP. This has decreased net worth by £2.260m.

Transactions during 2008/9 include the removal of assets from the register totalling £20.246m. These include the removal of assets now transferred to the PFI scheme, removal of assets leased under operating leases and other adjustments following the continuous reconciliation and review of the Asset Register with the property database. Details are disclosed in note 26.2, page 78.

BALANCE SHEET AS AT 31 MARCH 2009

31 Mar 08 (Restated) £000		Notes	31 Mar 09 £000	31 Mar 09 £000
	Fixed Assets			
	Intangible Assets -	27		
2,364	Software Licences			1,860
	Tangible Assets	26		
	Operational Assets			
657,512	- Council Dwellings		541,784	
475,958	- Other Land and Buildings		496,135	
15,713	- Vehicle, Plant & Equipment		18,183	
63,778	- Infrastructure		70,775	
12,024	- Community Assets		11,566	
1,224,985				1,138,443
	Non Operational Assets			
120,182	- Investment Properties		110,568	
6,113	- Surplus Assets Held for Disposal		2,530	
17,477	- Assets Under Construction		37,917	151,015
1,371,121	Net Fixed Assets			1,291,318
38,185	Long-term Investments	25,33.2	51,341	
1,899	Long Term Debtors	28.1	969	
0	Deferred Assets - PFI	26.9	418	
				52,728
1,411,205	Total Long Term Assets			1,344,046
	Current Assets			
1,373	Stocks and work in progress	30	991	
159,726	Short Term Investments	33.2	172,237	
39,340	Debtors	28.2	42,282	
354	LATS Allowances	29	0	
801	Cash and bank	33.2	3,050	
318	Imprests		354	
201,912				218,914
	Current Liabilities			
(52,089)	Creditors	31	(58,691)	
(2,700)	Short Term Loans		(87,870)	
(30,384)	Long Term Loans maturing within next 12 months		(25,380)	
(85,173)				(171,941)
1,527,944	Total Assets less Current Liabilities			1,391,019
(17,711)	Creditors falling due after more than 12 months		(17,691)	
(312,947)	Long Term Borrowing	33.2	(263,405)	
(36,824)	Deferred Liabilities	32	(35,351)	
(13,839)	Provisions	35	(11,838)	
(122,765)	Government Grants Deferred	24.5	(160,897)	
(197,350)	Liability related to defined benefit pension scheme	38	(330,530)	
(701,436)				(819,712)
826,508	Total Assets less Liabilities			571,307

BALANCE SHEET AS AT 31 MARCH 2009 (CONT)

31 Mar 08 (Restated) £000		Notes	31 Mar 09 £000	31 Mar 09 £000
	Financed By:			
39,915	Revaluation Reserve	37.1	95,963	
959,937	Capital Adjustment Account	37.2	781,056	
0	Trust funds & Special Balances	36	0	
463	Deferred Capital Receipts	37.5	151	
8,058	Usable Capital Receipts Reserve	37.3	5,376	
(215,061)	Pensions Reserve	37.6	(348,221)	
1,581	Major Repairs Reserve		237	
(8,858)	Financial Instruments Adjustment Account	37.4	(7,928)	
0	Equal Pay Back Pay Account	37.7	(1,843)	
16,985	Other Earmarked Reserves	37.9	23,631	
803,020				548,422
	Balances:-			
11,729	General Fund		11,739	
8,881	Schools Balances		9,151	
3,113	Housing Revenue Account		2,042	
(235)	Collection Fund		(47)	
23,488				22,885
826,508				571,307

The Balance Sheet is fundamental to the understanding of the Council's position at year-end. It shows its balances and reserves and its long term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

GROUP INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

2007/08 Net Exp. £000		Notes	2008/09 Gross Exp. £000	2008/09 Gross Inc. £000	2008/09 Net Exp. £000
	<u>Expenditure on General Fund Services:</u>				
4,479	Central Services to the Public		24,457	(19,953)	4,504
690	Court & Probation Services		782	(67)	715
50,543	Cultural, Environmental, Regulatory & Planning Services	1	95,988	(38,103)	57,885
60,958	Adult Social Care		88,710	(20,792)	67,918
62,887	Children's and Education Services		295,681	(219,723)	75,958
14,313	Highways & Transport Services	2	35,322	(18,261)	17,061
35,398	Housing - (Housing Revenue Account)		154,704	(47,095)	107,609
9,173	Housing Services - Other		98,290	(92,447)	5,843
9,621	Corporate & Democratic Core		5,760	(69)	5,691
7,206	Non Distributable Costs		8,475	0	8,475
255,268	Subtotal		808,169	(456,510)	351,659
25	Share of Operating Result of Associates		(76)		(76)
0	Share of Exceptional Items of associates				0
0	Share of Exceptional Items of joint ventures				0
1,625	Share of Operating Result of joint ventures		5,936	(3,627)	2,309
256,918	Net Cost of Services of Group c/f		814,029	(460,137)	353,892

GROUP INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009 (CONT)

Restated 2007/08 Net Exp. £000		2008/09 Exp. £000	2008/09 Inc. £000	2008/09 Exp. £000
256,918	Net Cost of Services of Group b/f	814,029	(460,137)	353,892
	<u>Other Operating Income & Expenditure:</u>			
(714)	Loss/(gain) on Disposal of Fixed Assets			23,086
(8,817)	Other Income			(1,214)
168	Precepts & Levies			190
5	Trading Services - Other (Pannier Market)			209
15,774	Interest Payable and Similar Charges			20,110
850	Share of interest payable of joint ventures			866
1,534	Contribution to Devon County Council Pre-Reorganisation Debt			1,473
4,117	Contribution of Housing Capital Receipts to Government Pool			962
(11,364)	Interest & Dividends Receivable			(15,614)
(24)	Share of interest & investment income of associates			(7)
(133)	Share of interest & investment income of joint ventures			(92)
6,340	Pensions interest cost and expected return on pension assets			13,410
(95)	Share of pensions interest cost and expected return on pensions assets of associates			(35)
(48)	Share of pensions interest cost and expected return on pensions assets of joint ventures			6
287	Taxation of group entities			332
41	Share of taxation of associates & joint ventures			23
(1,293)	Appropriation to Group Income & Expenditure Reserve			(3,111)
263,546	Net Operating Expenditure			394,486
(83,419)	Precept demanded from the Collection Fund			(88,239)
(1,142)	Net Collection Fund Adjustment re previous year's surplus			(213)
(13,294)	Revenue Support Grant			(12,305)
0	Area Based Grant			(14,988)
(2,806)	LABGI			(796)
(79,213)	Contribution from Non-Domestic Rate Pool			(88,393)
83,672	TOTAL DEFICIT FOR THE YEAR			189,552

**RECONCILIATION OF THE SINGLE ENTITY SURPLUS OR DEFICIT FOR THE YEAR TO THE
GROUP SURPLUS OR DEFICIT**

Restated 2007/08 £000		2008/09 £000
83,672	(Surplus) or deficit on single entity's I & E for the year	189,552
378	Less: subsidiary & associate dividend income & any other distributions from group entities included in the single entity surplus or deficit on the I & E account	366
	Add: (surplus) or deficit arising from other entities included in the group accounts analysed into the amounts attributable to:	
(1,386)	Subsidiaries	(330)
(78)	Associates	(100)
2,294	Joint ventures	3,089
84,880	Group Account (surplus)/deficit for the year	192,577

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Restated 2007/08 £000		2008/09 £000
84,880	Deficit for the year on the Income and Expenditure Account*	192,780
(40,296)	Deficit/(surplus) arising on revaluation of fixed assets	(56,612)
(58,521)	Actuarial (gains)/losses on pension fund assets and liabilities	127,692
297	Attributable movement on the Collection Fund Balance	34
(404)	Contribution to Cornwall County Council MRP	(423)
(14,404)	Total recognised (gains)/losses for the year	263,471
9,903	Movement in Financial Instruments Adjustment Account (entries via STMGFB)	(1,695)
(4,141)	Movement in Net Worth as reflected on Balance Sheet	261,776

*includes £396k prior year adjustment re. Theatre Royal changes to Balance Sheet in 2007/08

GROUP BALANCE SHEET AS AT 31 MARCH 2009

Restated 31 Mar 08 £000		Notes	31 Mar 09 £000	31 Mar 09 £000
	Fixed Assets			
2,364	Intangible Assets			
	Software Licences			1,860
	Tangible Assets			
	Operational Assets			
657,512	- Council Dwellings		541,784	
491,939	- Other Land and Buildings	3	511,342	
21,962	- Vehicle, Plant & Equipment	4	25,152	
63,778	- Infrastructure		70,775	
12,024	- Community Assets		11,566	
1,247,215				1,160,619
	Non Operational Assets			
120,249	- Investment Properties		110,635	
6,113	- Surplus Assets Held for Disposal		2,530	
17,477	- Assets Under Construction		37,917	151,082
1,393,418	Net Fixed Assets			1,313,561
36,897	Long-term Investments		50,053	
673	Long-term Investments in associates		(496)	
115,330	Share in Gross Assets of Joint Ventures		112,441	
(11,057)	Share in Gross Liabilities of Joint Ventures		(11,788)	
1,569	Long Term Debtors		758	
0	Deferred Assets – PFI		418	151,386
1,536,830	Total Long Term Assets			1,464,947
	Current Assets			
1,734	Stocks and work in progress		1,349	
160,376	Short Term Investments		172,687	
41,571	Debtors	5	47,359	
354	LATS Allowances		0	
6,899	Cash and bank		7,443	
318	Imprests		354	
211,252				229,192
	Current Liabilities			
(59,406)	Creditors	6	(68,912)	
(2,700)	Short Term Loans		(87,870)	
(30,384)	Long Term Loans maturing within next 12 months		(25,380)	
(92,490)				(182,162)
1,655,592	Total Assets less Current Liabilities			1,511,977
(18,711)	Creditors falling due after more than 12 months	7	(18,914)	
(312,947)	Long Term Borrowing		(263,405)	
(36,824)	Deferred Liabilities		(35,351)	
(16,126)	Provisions		(12,449)	
(122,765)	Government Grants Deferred		(160,897)	
(197,567)	Liability related to defined benefit pension scheme		(332,084)	
(704,940)				(823,100)
950,652	Total Assets less Liabilities			688,877

GROUP BALANCE SHEET AS AT 31 MARCH 2009 (CONTINUED)

Restated 31 Mar 08 £000		Notes31 Mar 09 £000	31 Mar 09 £000
	Financed by:-		
39,915	Revaluation Reserve		95,963
959,937	Capital Adjustment Account		781,056
0	Trust funds & special balances		0
463	Deferred Capital Receipts		151
8,058	Usable Capital Receipts Reserve		5,376
(215,061)	Pensions Reserve		(348,221)
1,581	Major Repairs Reserve		237
(8,858)	Financial Instruments Adjustment Account		(7,928)
0	Equal Pay Back Pay Account		(1,843)
16,985	Other Earmarked Reserves		23,631
10,017	Revaluation reserve of group entities & share of revaluation reserve of associates & joint ventures		9,931
9,854	Profit & loss and other reserves of group entities & share of profit & loss & other reserves of associates & joint ventures		6,985
0	Share of Fixed Assed Revaluation Account in respect of Joint Venture		0
102,491	Share of Capital Financing Account in respect of Joint Venture		100,704
(145)	Share of Pension Reserve in respect of Joint Venture		(1,113)
0	Share of earmarked reserve in respect of Joint Venture		0
925,237			664,929
	Balances:-		
1,927	Share of General Reserve of Joint Venture		1,063
11,729	General Fund		11,739
8,881	Schools Balances		9,151
3,113	Housing Revenue Account		2,042
(235)	Collection Fund		(47)
25,415			23,948
950,652			688,877

Amendments made to Notes to the Accounts

Plymouth City Council Single Entity Accounts

Note 8 – Interest Payable and Similar Charges

Interest paid on loans and other similar charges for the year were £19.986m (£15.699m in 2007/08) as follows:

<u>Interest Payable and Similar Charges</u>	2007/08	2008/09
	£000	£000
Interest payable on loans	17,244	19,984
Discounts received from early repayment of debt	(1,545)	(1,940)
Impairment charge - Iceland Banks	0	1,942
Total Interest Payable & Similar charges	15,699	19,986

Further details on the impairment charge are included in the Financial Instruments Disclosure Note 33 on pages 85 to 95.

Note 21 - Net additional amount required by statute and non-statutory practices to be debited or credited to the General Fund Balance for the year

	2007/08 £000	2008/09 £000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
Depreciation and Impairment of Fixed Assets (Note 26)	(81,739)	(168,648)
Amortisation of Government Grants Deferred (Note 24.5)	9,763	7,262
Deferred Charges/Revenue Expenditure charged to Capital under Statute (Note 26.5)	(22,266)	(9,731)
De-minimus capital expenditure written off to revenue	(671)	0
Gain/(Loss) on sale of fixed assets	9,526	(21,710)
Movement on the Financial Instruments Adjustment Account (Note 37.4)	1,894	930
Transfer to equal Pay back pay account	0	(1,843)
Amount by which Pension Costs calculated in accordance with FRS 17 are different from the contributions due under the Pension Scheme regulations (note 38)	(10,380)	(9,100)
	(93,873)	(202,840)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
Statutory provision for repayment of debt (see Note 22)	5,690	6,470
Capital expenditure charged to the General Fund Balance	2,004	2,041
Transfer from Usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool (note 7)	(4,117)	(962)
	3,577	7,549
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Transfer to / from HRA Balance	(719)	(1,071)
Transfer to / from Schools Balances	0	270
Transfer to / from Reserves (see Note 37)	3,952	6,530
	3,233	5,729
Net additional amount required to be credited to the General Fund Balance for the year	(87,063)	(189,562)

Note 24 –Government Grants and Other Contributions

24.5 – Government Grants Deferred

The movement on the Government Grants and Contributions Deferred Account for 2008/09 is shown in the table below which includes both applied and unapplied grants and contributions and Section 106 Receipts. The applied element of £133.711m at 31 March 2009, represents the value of grants and contributions that have been used to finance capital expenditure and are being amortised to revenue over the life of the asset financed as required by the SORP. The unapplied grants and contributions which total £27.186m at 31 March 2009, including £7.874m of Section 106 monies, is available to meet the costs of capital expenditure in future years.

<u>Government Grants Deferred</u>	Applied Grants & Contributions £000	Unapplied Grants £000	Unapplied Contributions £000	Total Government Grants Deferred £000
Balance at 1 April 2008	92,782	17,588	12,395	122,765
Restatement	(13)	893	(1,412)	(532)
Received in Year		43,205	3,017	46,222
Amounts amortised in year	(3,891)			(3,891)
Amounts Written out to Revenue in year	(3,371)			(3,371)
Grants and Contributions used to finance capital in year	48,204	(44,840)	(3,364)	0
S106 Receipts Used to finance Revenue spend in year			(296)	(296)
Balance at 31 March 2009	133,711	16,846	10,340	160,897

An adjustment of £0.532m has been made in 2008/09 relating to grants and contributions incorrectly classified in previous years.

Note 25 – Long Term Investments

The Council's long term Investments are as follows:

<u>Long Term Investments</u>	31 Mar 08 £000	31 Mar 09 £000
Plymouth Citybus – Share Capital	1,290	1,290
Other	57	57
Loans to Financial Institutions*	36,838	49,994
Total Long Term Investments	38,185	51,341

*Loans to financial institutions shown at amortised cost – see financial instruments disclosure note 33 page 85.

Note 28 – Debtors

28.2 – Short-Term Debtors

Debtors are carried in the Balance Sheet at amortised cost, which generally equates to invoice value. The carrying value of the debt is reduced, however, to take into account the potential non-collectability of debt.

<u>Short-Term Debtors</u>	Restated 31 Mar 08 £000	31 Mar 09 £000
Amounts Falling Due in One Year		
Government Departments	11,931	15,360
Other Local Authorities	1,874	2,197
Housing Rents	3,260	3,287
Sundry Debtors	38,115	35,515
	55,180	56,359
Less Provisions for Bad Debts		
General Fund	(2,434)	(1,143)
Housing Benefit Overpayments	(1,670)	(1,955)
Housing Revenue Account (HRA)	(2,551)	(2,406)
Collection Fund	(9,185)	(8,573)
	(15,840)	(14,077)
Net Debtors	39,340	42,282

The movement on the Allowance for Non-Collectability of Debt (Bad Debt Provision) Accounts over the year was as follows:

<u>Bad Debt Provision</u>	Balance 31 Mar 08 £000	Provisions made in year £000	Provisions used in year £000	Balance 31 Mar 09 £000
General Fund	(2,434)	(270)	1,561	(1,143)
Housing Benefit Overpayments Provision	(1,670)	(449)	164	(1,955)
HRA Bad Debt Provision	(2,551)	(157)	302	(2,406)
Collection Fund	(9,185)	(2,263)	2,875	(8,573)
Total Provisions For Bad Debts	(15,840)	(3,139)	4,902	(14,077)

Note 31 – Creditors

Creditors payable within the next 12 months are:

<u>Creditors</u>	Restated 31 Mar 08 £000	31 Mar 09 £000
Government Departments	10,085	13,685
Other Local Authorities	4,055	3,559
Housing Rents	747	606
Sundry Creditors	37,202	40,841
Total Creditors	52,089	58,691

Note 33 - Financial Instrument Disclosures

33.2 - Financial Instruments Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial Instruments.

<u>Financial Instrument Balances</u>	Long	Term	Short	Term		
	31 Mar 08	31 Mar 09	31 Mar 08	31 Mar 09	31 Mar 08	31 Mar 09
	£000s	£000s	£000s	£000s	£000s	£000s
<u>Borrowings</u>						
Financial liabilities at amortised cost						
PWLB Debt	184,609	129,396	30,381	25,375	214,990	154,771
Other Borrowings	128,338	134,009	2,703	87,875	131,041	221,884
Creditors	0	0	52,089	58,815	52,089	58,815
Total borrowings	312,947	263,405	85,173	172,065	398,120	435,470
<u>Investments</u>						
Loans and receivables:						
Investments	36,837	49,994	159,726	172,237	196,563	222,231
Contractual debtors (net of impairment)	1,899	969	39,340	42,282	41,239	43,251
Cash	0	0	801	3,050	801	3,050
Total investments	38,736	50,963	199,867	217,569	238,603	268,532

Note : LOBOs of £49m have been included in long term borrowing but have a call date in the next 12 months.

33.3 - Gains and Losses on Financial Instruments

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows:

2008/09	Financial Assets				
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair value through P&L	Total
	£000	£000	£000	£000	£000
Interest expense	19,984	0	0	0	19,984
Losses on derecognition	0	0	0	0	0
Impairment losses	0	1,942	0	0	1,942
Interest payable and similar charges	19,984	1,942	0	0	21,926
Interest income	0	(15,553)	0	0	(15,553)
Gains on derecognition	(1,940)	0	0	0	(1,940)
Interest and investment income	(1,940)	(15,553)	0	0	(17,493)
Net (gain)/loss for the year	18,044	(13,611)	0	0	4,433

2007/08	Financial Assets				
	Financial Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair value through P&L	Total
	£000	£000	£000	£000	£000
Interest expense	15,357	0	0	0	15,357
Losses on derecognition	0	0	0	0	0
Impairment losses	0	0	0	0	0
Interest payable and similar charges	15,357	0	0	0	15,357
Interest income	0	(10,881)	0	0	(10,881)
Gains on derecognition	(1,544)	0	0	0	(1,544)
Interest and investment income	(1,544)	(10,881)	0	0	(12,425)
Net (gain)/loss for the year	13,813	(10,881)	0	0	2,932

33.4 - Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. The fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instruments, using the new borrowing rate for a comparable loan using the assumptions outlined below:

- For PWLB debt, the discount rate used is the rate for premature borrowing as per rate sheet number 072/09
- For other market debt and investments the fair value has been based on the nearest equivalent SWAP rate sourced from Bloomberg as at 31 March 2009 based on the mid rate for the day
- We have used interpolation techniques between available rate where the exact maturity period was not available.
- We have calculated fair values for all instruments in the portfolio.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

	31 March 2008		31 March 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
<u>Liabilities at amortised cost</u>				
PWLB – maturity	214,991	230,004	154,771	185,214*
LOBOs	128,338	137,610	133,930	144,357
Bonds	90	90	83	83
Short term borrowing	2,612	2612	87,870	87,870
Creditors	52,089	52,089	58,691	58,691
Financial liabilities	398,120	422,405	435,345	476,215

*In October 2007, the PWLB introduced a separate rate of interest for early repayment of loans, and the fair value calculation as supplied by PWLB has been based on this lower rate of interest. This rate is not comparable with the valuation of market loans which are based on the actual market rate applicable for new borrowing as at 31 March 2009. The equivalent fair value for PWLB loans based on a comparable market rate would be £175.174m a reduction of £10.040m.

The fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans

	31 March 2008		31 March 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
<u>Assets carried at amortised cost</u>				
Cash	801	801	3,050	3,050
Deposits with banks and building societies	179,840	180,544	202,275	205,569
Callable deposits	16,723	16,689	19,956	22,733
Debtors	39,340	39,340	43,273	43,273
Financial assets	236,704	237,374	268,554	274,625

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above current market rates increases the amount that the authority would receive if it agreed to early repayment of loans.

33.5 - Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a Treasury Management Board, comprising senior Officers of the Council, the Director for Corporate Support and the Portfolio Member for Budget, Asset Management and Revenues and Benefits. The Board meets regularly and acts in accordance with the policies set out by the Council in the annual Treasury Management Strategy. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering credit, liquidity and market risk.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. The risk is minimised through the annual Investment Strategy which outlines the credit criteria for the investment of the Council's funds. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed by credit rating agencies.

The Council's investment strategy for 2008/09 was originally approved by Council on 3 March 2008. During the early part of the year the Council invested for a range of periods from overnight to five years depending on cash flows and interest rates on offer in accordance with the following criteria:

Financial Asset Category	Criteria	Maximum Investment	Maximum Investment Term
Major UK clearing banks & former building societies Foreign banks Wholly owned subsidiaries of UK clearing banks	F1+ short term AA+ or higher long term	£5m	5 years
Major UK clearing banks & former building societies Other UK banks Foreign banks Wholly owned subsidiaries of UK clearing banks	F1+ short term AA or higher long term	£10m	3 years
Major UK clearing banks & former building societies Foreign banks Wholly owned subsidiaries of UK clearing banks	F1+ short term AA or higher long term	£15m	2 years

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Major UK clearing banks & former building societies Other UK banks Foreign banks Wholly owned subsidiaries of UK clearing banks UK Building Societies	F1+ short term AA- or higher long term	£10m	2 years
Major UK clearing banks & former building societies Other UK banks Foreign banks Wholly owned subsidiaries of UK clearing banks UK Building Societies	F1 short term A+ or higher long term	£5m	2 years
Major UK clearing banks & former building societies Foreign banks Wholly owned subsidiaries of UK clearing banks	F1+ short term AA of higher long term	£20m	1 year
Major UK clearing banks & former building societies Other UK banks Foreign banks Wholly owned subsidiaries of UK clearing banks UK Building Societies	F1+ short term AA- or higher long term	£15m	1 year
Major UK clearing banks & former building societies Other UK banks Foreign banks Wholly owned subsidiaries of UK clearing banks UK Building Societies	F1 short term A+ or higher long term	£10m	1 year
Major UK clearing banks & former building societies Other UK banks Foreign banks Wholly owned subsidiaries of UK clearing banks UK & Ireland Building Societies	F1 or P-1 short term A or A2/3 or higher long term	£6m	1 year
Unrated Building Societies	Asset size > £2,000m	£3m	1 year
Major UK clearing banks & former building societies Other UK banks Foreign banks Wholly owned subsidiaries of UK clearing banks UK & Ireland Building Societies	F1 or P-1 short term A or A2/3 or higher long term	£10m	6 months
Unrated UK Building Societies	Asset size > £2,000m	£6m	6 months
Unrated UK Building Societies	Asset size > £1,500m	£4m	4 months
Local Authorities		£15m	1 year

Appendix B

2008/09 saw severe financial turbulence, however, and the collapse of a whole banking system in Iceland in early October 2008. Following the collapse of the Icelandic banks, the Council took a very cautious approach restricting investments to other local authorities, Government Debt Management Office or UK banks backed by the Government Credit Guarantee Scheme, with a maximum investment term of 3 months, and actively pursued options to reduce its level of investments through reducing loans wherever feasible. At 31 March 2009, the Council's investments had reduced from £291.500m at 8 October 2008 to £213.800m and its borrowings from £407.200m to £370.383m.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year. The Council did have £13m invested in Icelandic banks which are now in administration, however, and further details of the amounts expected to be recovered are outlined below.

<u>Credit Risk</u>	Amounts at 31 March 2009 £000s	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2009 %	Estimated maximum exposure to default and uncollectability £000s
Deposits with banks and other financial institutions	213,800	6%	6%	13,000
Customers	7,741	14.70%	n/a	1,140
Total	221,541			14,140

The historical experience of default is based on the amounts invested in Icelandic banks as a % of the Council's total investments at the end of the year. There remains, however, an inherent risk in the portfolio, in terms of investment in the current climate, which cannot be quantified. Council officers will continue to manage risk out by the most appropriate methods in conjunction with the Council's Treasury Advisors.

The Council does not generally allow credit for customers. After 28 days, recovery procedures are undertaken to recover any outstanding debt. The past due amount can be analysed by age as follows and includes balances outstanding up to 28 days:

<u>Analysis of Customer Debt</u>	31 Mar 2008 £000	31 Mar 2009 £000
Less than two months	10,544	5,346
Two to three months	580	136
Three to four months	305	215
Four months to one year	744	864
More than one year	2,560	1,056
Total	14,733	7,617

Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £13m deposited across 3 of these institutions, with varying maturity dates and interest rates as follows:

	Amount Invested £	Interest Rate %	Maturity Date
Glitnir	1,000,000	6.210	09-Oct-08
	2,000,000	6.160	17-Oct-08
	2,000,000	6.140	20-Oct-08
	1,000,000	6.140	23-Oct-08
	6,000,000		
Landsbanki	1,000,000	6.170	29-Oct-08
	2,000,000	5.800	11-Mar-09
	1,000,000	5.900	11-May-09
	4,000,000		
Heritable	1,000,000	6.230	15-Oct-08
	1,000,000	6.150	17-Oct-08
	1,000,000	5.500	11-Feb-09
	3,000,000		

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

Heritable Bank

Heritable bank is a UK registered bank under Scots law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009 outlined that the return to creditors was projected to be 80p in the £ by end 2012 with the first dividend payment of 16.13p in the £ due in the summer of 2009. The authority has therefore decided to recognise an impairment based on it recovering 80p in the £. It is anticipated that there will be some front loading of these repayments and that a final sale of assets will take place after the books have been run down to the end of 2012. Therefore in calculating the impairment the Authority has made the following assumptions re timing of recoveries:

July 2009 –	16.13%
December 2009 –	10.00%
July 2010 –	22.22%
July 2011 –	19.22%
July 2012 –	7.22%
July 2013 –	7.21%

Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 6 October 2008.

Landsbanki

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 20 February 2009 and can be viewed on its website. The Landsbanki Resolution Committee has announced that its best estimate of the amount to be repaid to preferential claimants is 83%. This will be based on the revised claim, including interest to 22 April 2009.

The authority has therefore decided to recognise an impairment based on it recovering 83p in the £.

Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Landsbanki to enjoy rights in New Landsbanki.
- The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors, settlement in a single sum is unlikely. Therefore, in calculating the impairment, the authority has used the estimated repayment timetables for Heritable and Kaupthing as a basis for its assumption about the timing of recoveries. It is therefore assumed that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012. Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009. Where the maturity date is earlier, a penalty rate of interest currently assumed at 22% will be payable.

Glitnir Bank hf

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 6 February 2009 and can be viewed on its website. This indicates that full recovery of the principal and interest to 22 April 2009 is likely to be achieved. Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Glitnir to enjoy rights in New Glitnir.

The authority has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 22 April 2009.

The impairment therefore reflects the loss of interest to the authority until the funds are repaid. Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming that the Bond remains at its current estimated value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 40p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, in calculating the impairment the authority has therefore made an assumption that the repayment of priority deposits will be made by 31 March 2010.

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009. Where the maturity date is earlier, a penalty rate of interest currently assumed at 22% will be payable.

The total impairment loss recognised in the Income and Expenditure Account in 2008/09, £1.942m, has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

The Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £0.913m has been transferred to the Financial Instruments Adjustment Account. The balance of £1.029m relates to interest which has been borne in full by the General Fund.

Discussions are ongoing with DCLG to amend Regulations to allow the authority to charge the relevant proportion of the impairment loss, including lost interest, to the Housing Revenue Account.

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future. The Council's policy is to ensure that not more than 30% of loans are due to mature within any financial year.

The maturity structure of financial liabilities is as follows (at nominal value):

Financial Liabilities (nominal value)	On 31 March 2008 £000	On 31 March 2009 £000
Public Works Loans Board	212,500	152,500
Market debt	125,000	130,000
Temporary borrowing	2,600	87,800
Local bonds	88	83
Trade Creditors	52,089	58,815
Total	392,277	429,198
Maturity Profile		
Less than 1 year	84,777	171,620
Between 1 and 2 years	5,000	5,078
Between 2 and 5 years	5,000	0
Between 5 and 10 years	0	0
Between 10 and 20 years	22,000	22,000
Between 20 and 30 years	6,500	27,000
Between 30 and 40years	49,500	11,000
Between 40 and 50 years	113,500	81,500
Over 50 years	111,000	111,000
Total	397,277	429,198

All trade and other payables are due to be paid in less than one year.

There is £19m in the 20-30 year category and £30m in the over 50 year category of LOBO's which have a call date in the next 12 months.

£89.7m of short term borrowing in place at 31st March 2009 was taken under approved authority to repay longer-term debt with the repayments of these loans covered by cash flow and maturing deposits in the early part of 2009/10 thus reducing credit risk. These repayments are not subject to liquidity risk and as there is no need to replace this borrowing there will be no exposure to interest rate risk.

Market Risk

Interest rate risk

The Council is exposed to risks in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates- the interest rate expense charged to the Income and Expenditure account would rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings would fall
- Investments at variable rates – the interest income credited to the income and expenditure account would rise
- Investments at fixed rates – the fair value of the assets will fall.

Appendix B

The Council has a number of strategies for managing interest rate risk. The Council seeks to minimise this risk through expert advice on forecasts of interest rates received from our treasury management consultants. This is used to formulate a strategy for the year for both investments and borrowing. This strategy is periodically reviewed during the year to update for any modifications required in the light of actual movements in interest rates. As part of this strategy limits are set for variable interest rate exposure to ensure that variable rate borrowing does not exceed variable rate investments. In both cases variable rates are considered to be any loan or investments with maturities of less than 1 year or longer term loans or investments with the period to maturity falling below 1 year. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget. Any variations during the year are reported to the Treasury Management Board, who discuss action required in terms of any changes to the day to day implementation of the Council's investment strategy, and, also form part of the bi-monthly monitoring reports to Cabinet. During 2008/09 interest rates fell to an unprecedented all time low of just 0.5%, and the impact on the Council's Income and Expenditure Account was minimised by using maturing investments and favourable cash flows to repay higher rated debt wherever possible.

Price Risk

The authority does not invest in equity shares and is not exposed to movements in price.

Foreign Exchange Risk

The Council has no financial assets or a liability denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

Note 34– Analysis of Net Assets Employed

The table below shows the analysis of net assets employed across the three funds. The Council does not prepare separate Balance Sheets for each of the three funds. The breakdown below represents the best information available at the year-end. It is based on a detailed analysis of the Asset Register together with identification of specific assets and liabilities attributable to each fund. The Council is however unable to accurately allocate items such as cash/bank balances across the funds. These balances have therefore been included within the General Fund totals.

<u>Analysis of Net Assets Employed</u>	Restated 31 March 08	31 March 09
	£000	£000
HRA	666,253	551,803
Trading	37,723	55,362
General Fund	122,532	(35,858)
	826,508	571,307

Note 37 – Reserves

The Council holds a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accountancy practice and others have been set up voluntarily to earmark resources for future spending plans. The following table outlines the main reserves and the purpose of the reserve. Further details of the movement in the year are provided in the following paragraphs.

Reserves	Restated Balance 31 Mar 08 £000	Net Movement In Year £000	Balance 31 Mar 09 £000	Purpose of Reserve
Revaluation Reserve	39,915	56,048	95,963	37.1
Capital Adjustment Account	959,937	(178,881)	781,056	37.2
Usable Capital Receipts	8,058	(2,682)	5,376	37.3
Financial Instruments Adjustment Account	(8,858)	930	(7,928)	37.4
Pensions Reserve	(215,061)	(133,160)	(348,221)	37.6
Housing Revenue Account	3,113	(1,071)	2,042	HRA Pages 121 to 130
Major Repairs Reserve	1,581	(1,344)	237	HRA Statements, note 19 Page 129
General Fund	11,729	10	11,739	Statement of Movement on the General Fund Balance, Page 51
Schools Balances	8,881	270	9,151	37.8
Deferred Capital Receipts	463	(312)	151	37.5
Collection Fund	(235)	188	(47)	Collection Fund Page 132 to 134
Equal Pay Back Pay Account	0	(1,843)	(1,843)	37.7
Other Reserves	16,985	6,646	23,631	37.9
Total	826,508	(255,201)	571,307	

37.2 - Capital Adjustment Account

The Capital Adjustment Account represents the store of capital resources set aside to meet past expenditure.

The movement in the Account in 2008/09 was as follows:

<u>Capital Adjustment Account</u>	2007/08	2008/09
	£000	£000
Balance at 1 April	1,045,189	959,937
Amount Reserved:-		
Capital Receipts	5,544	6,923
Capital Financing:-		
Capital Receipts	6,592	0
Revenue & Other Funds	11,440	12,350
Other charges to CAA:-		
Funding of Capitalised Element of PFI Payment	0	418
Depreciation and impairment	(81,298)	(167,826)
MRP	5,690	6,470
Principal Repayments to DCC re Pre LGR Debt	1,534	1,473
Transfer to HRA Major Repairs Reserve re HRA Resource Accounting	(11,187)	(9,470)
Write Down of Revenue Expenditure Funded from Capital under Statute	(22,937)	(9,731)
Write Down of Long Term Debtors	(106)	169
Write Down of Deferred Grants & Contributions	9,763	7,262
Write Down of Fixed Assets	(10,287)	(26,919)
Balance at 31 March	959,937	781,056

From 1992/93 to 1998/99, the District Auditor qualified the Accounts in respect of entries made to the Accounts in 1991/92 and 1992/93. A total of £34.4m from the Council's Provision for Credit Liabilities (PCL) was used during these years to repay the debt outstanding on a deferred purchase arrangement and this was unlawful. The City Council and the District Auditor agreed on arrangements, which will make good the resulting deficit in the PCL over a period of 30 years, commencing on 1 April 2000. This period represented the estimated remaining life of the Pavilions asset.

The Local Government Act 2003 replaced (from 2004/05) the previous capital control mechanism with a new system based on a Prudential Code. The Council and the District Auditor have reviewed the implications of this Act on the agreed repayment schedule. In particular, the Council and the District Auditor have reviewed the practicalities of how the shortfall in the PCL will be addressed under the new Treasury Management regime. Agreement has been reached on the necessary accounting treatment, whereby the replenishment of the £34.4m set-aside will be achieved more quickly than was required under the original timetable agreed with the auditor – which required £13.5m to be repaid by 31 March 2012. Our current auditor, Grant Thornton UK LLP, concurs with this treatment.

The PCL was part of the Capital Financing Account and although the PCL no longer exists under the new capital financing system, amounts can still be set aside from revenue and capital receipts to the Capital Adjustment Account for debt repayment. The table below shows that £6.923m was set aside from capital receipts in 2008/09 towards replenishing the set aside under the agreed arrangements with the Auditor, bringing the total set aside to 31 March 2009 to £33.763m.

As at 31 March 2009 the balance remains to be set aside is £0.637m. This amount should be set aside in 2009/10 meaning the PCL would have been replenished in full by 31 March 2010.

37.4 - Financial Instruments Adjustment Account

This reserve is the balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments. The impairment adjustment in respect of the potential losses in Investments in Iceland Bank has been transferred to this account in accordance with Capital Finance Regulations which allow the impact of the losses to be deferred until 2010/11.

The movement in the Account in 2008/09 is shown below:

<u>Financial Instruments Adjustment Account</u>	2007/08	2008/09
	£000	£000
Balance 1 April	10,738	8,858
<u>Movement in year</u>		
Discount received in year	(1,545)	(1,940)
Charge to STMGFB in year		
Premiums-amortised cost	(1,150)	(1,150)
Discounts - amortised cost	315	482
Soft loans	6	252
Stepped LOBO Loan Adjustment	494	512
Iceland impairment	0	1,942
Iceland - Reversal Interest impairment	0	(1,028)
Balance 31 March	8,858	7,928

The Financial Instrument Adjustment Account is treated as a reserve in the Balance Sheet. Transactions to and from the Account using the statutory override Regulations are made via the STMGFB and are not charged to the Income and Expenditure Account. This has an impact on the Statement of Total Recognised Gains and Losses (STRGL) as this statement is intended to reconcile to the movement in net worth, represented by the change in Balance Sheet values from year to year. An adjustment has been made to the STRGL in respect of transactions within the Financial Instruments Adjustment Account that have not been charged to the Income and Expenditure Account in order to show the unrealised gains/losses for the year. The adjustment made has been calculated as follows:

<u>Balance taken via Statement of Movement on the General Fund</u>	2007/08	2008/09
<u>Balance</u>	£000	£000
Balance 1 April	10,738	9,903
Amortisation premiums/ discounts via STMGFB	(2,380)	(2,607)
Actual Discount within Income and Expenditure Account	1,545	1,940
Iceland impairment adjustment		(1,028)
Total not included in Income and Expenditure	9,903	8,208

The movement in the year required to be included on the STRGL is (£1.695m).

Note 39 – Cash Flow Disclosures

39.4 - Reconciliation to Balance Sheet

2007/08 £000		2008/09 £000
1,119	Cash in Hand and at Bank/(Overdrawn) at 31 March	3,404
(914)	Less Cash in Hand and at Bank/(Overdrawn) at 1 April	(1,119)
205	Increase/(Decrease) in Cash and Cash Equivalents per Cash Flow Statement	2,285
(43,158)	Cashflow from (Increase) / Decrease in debt financing	(19,181)
48,930	Cashflow from (Increase) / Decrease in liquid resources	13,236
3,695	Accrued Interest added to loans & other adjustments 2008/09	2,461
9,672	Movement in net debt in year	(1,199)
(193,497)	Net debt at 1 April	(183,825)
(183,825)	Net Debt at 31 March	(185,024)

Movement in net debt in year was as follows:

<u>Analysis of net debt 2008/09</u>	01-Apr-08 £000	Cashflow £000	Accrued interest & Other Adjust's £000	31-Mar-09 £000
Cash in hand	801	2,249	0	3,050
Imprests	318	36	0	354
Short Term Borrowing	(2,700)	(85,114)	(56)	(87,870)
Long Term borrowing maturing within next 12 mths	(30,384)	4,998	6	(25,380)
Long Term borrowing maturing after 12 mths	(312,947)	47,489	2,053	(263,405)
PCC share of DCC Long Term borrowing	(36,824)	1,429	44	(35,351)
Long Term Investments	38,185	12,017	1,139	51,341
Short Term Investments	159,726	13,236	(725)	172,237
Net Debt	(183,825)	(3,660)	2,461	(185,024)

<u>Analysis of net debt 2007/08</u>	01-Apr-07 £000	Cashflow £000	Accrued interest & Other Adjust's £000	31-Mar-08 £000
Cash in hand	599	202	0	801
Imprests	315	3	0	318
Short Term Borrowing	(5,536)	2,851	(15)	(2,700)
Long Term borrowing maturing within next 12 mths	0	(30,003)	(381)	(30,384)
Long Term borrowing maturing after 12 mths	(281,503)	(27,541)	(3,903)	(312,947)
PCC share of DCC Long Term borrowing	(38,359)	1,535		(36,824)
Long Term Investments	26,347	10,000	1,838	38,185
Short Term Investments	104,640	48,930	6,156	159,726
Net Debt	(193,497)	5,977	3,695	(183,825)

Notes to the Group Accounts

The Council is required to provide a breakdown of the type of services it provides. Other members of the Group also provide similar services and these are illustrated in the tables below.

	Gross Expenditure £000	Gross Income £000	Net Income £000
Note 1 - Cultural, Environmental Regulatory & Planning Services			
Plymouth City Council	77,816	(22,717)	55,099
Theatre Royal Plymouth Ltd	17,748	(15,243)	2,505
Plymouth Investments Partnerships Ltd	424	(143)	281
	95,988	(38,103)	57,885

	Gross Expenditure £000	Gross Income £000	Net Income £000
Note 2 - Highways & Transport Services			
Plymouth City Council	18,889	(4,314)	14,575
Plymouth City Bus Ltd	16,433	(13,947)	2,486
	35,322	(18,261)	17,061

Note 3 - Other Land and Buildings

The group value of Other Land and Buildings includes a revaluation of Plymouth City Bus Ltd buildings, which has been applied to 2008/09 and 2007/08. This brings the valuation of these assets in line with the Council's valuation policy of current market value.

Other Land and Buildings	2007/08 £000	2008/09 £000
Plymouth City Council	475,958	496,135
Plymouth City Bus Ltd	4,954	4,903
Theatre Royal Plymouth Ltd	9,462	9,135
Plymouth Investment Partnerships Ltd	1,565	1,169
	491,939	511,342

Note 4 - Vehicle, Plant & Equipment

	2007/08	2008/09
	£000	£000
Plymouth City Council	15,713	18,183
Plymouth City Bus Ltd	5,716	6,350
Theatre Royal Plymouth Ltd	533	619
Plymouth Investment Partnerships Ltd	0	0
	21,962	25,152

The end of year Debtors and Creditors balances for the Council and the subsidiary members of the Group are shown below for years 2008/09 and 2007/08. All balances have been adjusted to remove inter-group transactions.

Note 5 - Debtors

	2007/08	2008/09
	£000	£000
Plymouth City Council	39,016	42,054
Plymouth City Bus Ltd	998	1,437
Theatre Royal Plymouth Ltd	1,480	3,803
Plymouth Investment Partnerships Ltd	77	65
	41,571	47,359

Note 6 - Creditors

	2007/08	2008/09
	£000	£000
Plymouth City Council	(51,632)	(58,658)
Plymouth City Bus Ltd	(2,782)	(2,540)
Theatre Royal Plymouth Ltd	(4,948)	(7,654)
Plymouth Investment Partnerships Ltd	(44)	(60)
	(59,406)	(68,912)

Note 7 - Creditors falling due after more than 12 months

	2007/08	2008/09
	£000	£000
Plymouth City Council	(17,711)	(17,691)
Plymouth City Bus Ltd	(1,000)	(1,223)
Theatre Royal Plymouth Ltd	0	0
Plymouth Investment Partnerships Ltd	0	0
	(18,711)	(18,914)

Note 40 – Contingent Assets and Contingent Liabilities**40.2 - Contingent Liabilities**

A contingent liability is defined as either a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or a present obligation that arises from past events but is not recognised because it is not probable that a transfer of economic benefits will be required to settle the obligation or the amount cannot be measured with sufficient reliability.

Contaminated Land

The Council has a duty to review all land it holds to assess whether it may have been contaminated by past use. This can be an initial theoretical exercise, based on experience, known former uses and historical data. Following this exercise, if land should be classified as contaminated, the Council is required to undertake a risk assessment and ultimately to ensure it is cleaned up. Risk assessments alone can cost several thousand pounds depending on the profile of the site and currently there is no specific budget provision for these works.

The Council has currently applied for grant assistance to undertake investigative works around high risk sites. This includes investigating mine workings at Kendle Place in Whitleigh. These workings are not thought to be a cause for concern and whilst the land remains in the ownership of the City Council, the Council can control future development on the site. However there are two dwelling houses thought to be built over the mine workings. These dwellings are scheduled to be transferred to Plymouth Community Homes later in the year although it is currently proposed that the land ownership will remain with the Council in order to minimise any risk.

A further potential cost may arise where land is sold for development or on the housing stock and land being transferred to Plymouth Community Homes if contamination is subsequently discovered during the development works. If the Council formally owned the site or has contributed to the contamination as a result of former use, the Council may be held responsible for both the clean up costs and associated costs of delay to the development. The Council will take steps to ensure the risk is managed through the land sale contract but should the purchaser be unable to meet any future liabilities that arise the cost may still revert to the Council.

**FINANCE SERVICES**

Corporate Resources Department

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Grant Thornton UK LLP
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Date: 25 September 2009

When calling or telephoning please ask for: **Adam Broome**

My Ref:

Your Ref:

Dear Sirs

Financial Statements for the Year Ended 31 March 2009

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other officers, management and staff, with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements.

- i We acknowledge our responsibilities for preparing financial statements which present fairly the financial position of this council and for making accurate representations to you.
- ii As far as we are aware:
 - there is no relevant audit information of which you are unaware; and
 - we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that you are aware of that information.
- iii All the accounting records of the council have been made available to you for the purpose of your audit and all the transactions undertaken by the council have been properly recorded in the accounting records and reflected in the financial statements.
- iv All other records and related information, including minutes of all council and committee meetings, have been made available to you.
- v The financial statements are free of material misstatements, including omissions.
- vi We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- vii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- viii We have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving:
- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements;
- ix We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the council's financial statements communicated by employees, former employees, analysts, regulators or others.
- x Except as stated in the accounts:
- there are no unrecorded liabilities, actual or contingent
 - none of the assets of the council has been assigned, pledged or mortgaged
 - there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- xi All related parties have been identified to you and the transactions with related parties and details of controlling interests are disclosed in the financial statements as appropriate.
- xii There are no claims, legal proceedings or other matters which may lead to a loss falling on the council or which could result in the creation of an unrecorded asset, apart from those disclosed in the contingent liabilities section of the financial statements.
- xiii The council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- xiv We are not aware of any instances of actual or possible non-compliance with laws and regulations which might affect the view given by the financial statements.
- xv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xvi There has been one significant event since the Balance Sheet date and this has been disclosed in a note to the Accounts. This event does not have an effect on the financial position of the council and does not necessitate revision of the figures included in the financial statements.

The financial statements have been fully explained to and discussed with us.

Approval

The approval of this letter of representation was minuted by the Council at its Audit Committee meeting on 25 September 2009.

Signed on behalf of Plymouth City Council

Adam Broome

Cllr Mrs S Leaves

Director of Corporate Resources

Date 25 September 2009

Chair of Audit Committee

Date 25 September 2009