

## CITY OF PLYMOUTH

**Subject:** Draft Statement of Accounts 2009/10 (subject to Audit)

**Committee:** Audit Committee

**Date:** 28 June 2010

**Cabinet Member:** Councillor Bowyer

**CMT Member:** Director for Corporate Support

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**Ref:** ACCT/SW

**Part:** 1

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### **Executive Summary:**

A report on the Council's revenue and capital outturn for the financial year was reported to Cabinet on the 8 June 2010. This report being presented for Audit Committee's approval is the statutory form of accounts – the 'Statement of Accounts', which the Council is required to produce for audit and publication. The Accounts and Audit Regulations require that the accounts are available for public inspection for four weeks and this year the period of inspection commences on 5 July. The audit is due to commence on the same day.

The Draft Statement of Accounts for 2009/10 is attached.

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### **Corporate Plan 2010- 2014**

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

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

The 2009/10 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.

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

N/A

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**Recommendations & Reasons for recommended action:**

Audit Committee Approve the Statement of Accounts for 2009/10

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**Alternative options considered and reasons for recommended action:**

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

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**Background papers:**

Final Accounts Working Papers 2009/10  
Budget Papers 2009/10  
Statement of Recommended Practice 2009 (SORP)  
Best Value Accounting Code of Practice 2009 (BVACoP)  
Outturn Report to Cabinet 8 June 2010

**Sign off:**

Fin	MC1011.002	Leg, Gov& Dem	TH 22/6	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											

## **Draft Statement of Accounts 2009/10**

### **1. Introduction**

- 1.1 The final revenue and capital outturn for the financial year was presented to Cabinet on 8 June 2010. This report presented for Audit Committee's approval is the statutory form of accounts – the 'Statement of Accounts', which the Council is required to produce for audit and publication. The Accounts and Audit Regulations require that the accounts are available for public inspection for four weeks and the period of inspection commences on 5 July 2010. The external audit of the accounts also commences on 5 July 2010.
- 1.2 Although forming part of the published Statement of Accounts, the Annual Governance Statement is being presented separately to this Audit Committee for approval.
- 1.3 The Accounts and Audit Regulations require the authority's Chief Finance Officer to seek approval of the accounts by a Committee of the Council. Advice from the External Auditor is that under the Local Government Act 2000 (Statutory Instrument SI 2853), the function of approval should not be the responsibility of an authority's executive i.e. cannot be the Cabinet. Therefore, for Plymouth it should be either the Audit Committee or Council to approve the accounts. The final date for approval of the accounts is 30 June 2010.

### **2. Accounting Code of Practice**

- 2.1 The statements must be prepared in line with the Code of Practice on Local Authority Accounting produced by the Chartered Institute of Public Finance and Accountancy (CIPFA), 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), which was introduced in 2000/01, and has been updated for 2009.

#### **2.2 SORP**

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

##### **2.2.1 Accounting for PFI and similar schemes**

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.

#### 2.2.2 Accounting for local taxes

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

- Council Tax

Authorities should account for Council tax income as an agent for the major preceptor's.

- NNDR

Authorities should account for NNDR as an agent for the Government.

#### 2.2.3 Financial Liabilities

Long term financial liabilities due to be settled within 12 months after the Balance Sheet date are to be presented within current liabilities.

#### 2.2.4 Removal of Disclosure Notes

The following disclosure notes have been removed:

- Section 137 expenditure
- Expenditure on Publicity
- The Building control Account
- BID schemes

#### 2.2.5 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 page 72 of the single entity accounts.

- 2.2.6 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.

### 2.3 BVACOP

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'.

## 3. **Difference from Outturn Report**

- 3.1 The statutory accounts report the same period and 'bottom line' as the outturn report presented to Cabinet on 8 June 2010, but differs substantially in presentation terms. The main reasons for the differences are:

- Accounting for Pensions  
Financial Reporting Standard (FRS) 17 requires the full liabilities of the pension fund to be reflected in the financial statements. Whilst the Council's management accounts include the cost of the employers actual annual pension contributions, FRS 17 requires these costs to be reversed out of service costs in the Income and Expenditure Account, and replaced by 'costs' of current service based on information provided by the pension fund actuary.
- Capital Charges and Support Service Charges  
Capital Charges and support service charges are allocated to services in the statutory accounts however, except for Housing and trading accounts, these charges are excluded from the Council's management accounts.
- Notional Interest – trading Accounts  
A notional interest charge was made to Trading Services within the management accounts. This has then been reversed for the statutory accounts to follow the requirements of the SORP. However the transfers to and from reserves have been adjusted to ensure there is no overall impact on the bottom line General Fund position.

- Premiums and Discounts on the Early Repayment of debt  
Premiums and discounts resulting from the early repayment of debt, ie during debt rescheduling exercises, must be written out in the year they arise unless the replaced loan meets a strict test of modification. Regulations enable the impact of this to be reversed out 'below the line' and replaced with the charge actually made to the management accounts.
- Soft loans  
An adjustment is made to the interest payments received under loans that the Council has made to organisations at less than market rate. The payments in the statutory accounts are made on an effective interest rate, but are reversed out below the line and replaced with the actual repayments made as reflected in the management accounts.
- Variable rate loans eg LOBO's  
The interest payable on variable rate loans is made to the statutory accounts on an effective interest rate. The difference is reversed out below the line to be replaced with the actual payments made.

#### **4. Key Messages 2009/10**

##### **4.1 Housing Stock Transfer**

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 £549.265m, of which £547.686m 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 removal of the assets are charged to the Income and Expenditure Account and show as a loss on disposal. This has led to a deficit for the year of £541.949m an increase over 2008/09 of £353.055m. However, the written off value is not a charge against the Council Tax as the cost of fixed assets is fully provided for under separate arrangements for capital financing and the loss has been reversed out via the Statement of Movement on the General Fund Balance and charged to the Capital Adjustment Account.

#### 4.2 Sale of CityBus

The Council sold its shareholding in its subsidiary company, Plymouth Citybus Ltd on 1 December 2009 to Go Ahead Group PLC for a sum of £18.755m. In accordance with accounting standard FRS2 , the Council's original investment in the company (it's shares) has been carried on the Council's Balance Sheet at cost of £1.290m. The net receipt has been shown within the other operating income section of the Income and Expenditure account as Other Income. However under separate arrangements for capital financing the gain has been reversed out via the Statement of Movement on the General Fund Balance to the Capital Receipts Account.

The main impact of the sale will be on the Council's group accounts.

#### 4.3 Pensions Deficit

Authorities are required to show the full liability under the pension fund on its Balance Sheet. The latest FRS17 valuation shows the deficit has increased by a further £121.326m, or 35% and now stands at £469.547m.

The current pension fund regulations require that contributions are set to meet 100% of the estimated liabilities of the fund. The previous regulations required contributions to be set to meet only 75% of the liabilities. The increase in contributions ('back funding') needed to bring the fund up to the 100% level is being phased in, which means that contributions will continue to rise each year until the fund reaches the 100% level. At 31 March 2010 the solvency of the fund (the assets verses liabilities) stood at 46.1% (49.2% 31 March 2009). The Council's annual contributions are set by an independent actuary following a triennial review of the fund. The next review is being undertaken during 2010/11 and new contribution rates will become effective from 1 April 2011.

#### 4.4 Reported Position

##### 4.4.1 Income and Expenditure Account

The removal of the assets transferred to Plymouth Community Homes under the stock transfer are required to be charged to the Income and Expenditure Account and show as a loss on disposal. This has led to a deficit for the year of £541.949m an increase over 2008/09 of £353.055m.

However, the written off value is not a charge against the Council Tax as the cost of fixed assets is fully provided for under separate arrangements for capital financing and the loss has been reversed out via the Statement of Movement on the General Fund Balance and charged to the Capital Adjustment Account.

#### 4.4.2 Balance Sheet Position

The size of the deficit on the pensions fund together with the reduction in the asset base following the stock transfer has meant a reduction in the Council's net worth or reserves of £616.248m and resulted in a 'negative' Balance Sheet position of (£44.471m). In the private sector a negative balance sheet would indicate insolvency of a company.

However, within local Government statutory arrangements for funding the pensions deficit means that the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the Scheme Actuary. The Council continues to maintain a general Working Balance of £11.517m equating to 5.7% of its net revenue spend and earmarked reserves of £19.310m set aside to fund future policy initiatives.

The underlying financial position of the Council therefore remains healthy.

### **5. Post Balance Sheet Events**

- 5.1 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. The Council has no such items to report as at 22 June 2010.

### **6. Recommendations**

- 6.1 Audit Committee Approve the Statement of Accounts for 2009/10