

## CITY OF PLYMOUTH

**Subject:** Statement of Accounts 2009/10

**Committee:** Audit Committee

**Date:** 24 September 2010

**Cabinet Member:** Councillor Bowyer

**Author:** Sandra Wilson

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**Ref:** ACCT/SW

**Part:** 1

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### **Executive Summary:**

The draft Statement of Accounts was approved by Audit Committee at its meeting on 28 June 2010. 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 disclosure notes and there is now a requirement for Audit Committee to re-approve the accounts prior to the statutory deadline of 30 September 2010. The changes act to strengthen the disclosure of information only, and do not change the reported position.

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### **Corporate Plan 2010-2013**

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 etc:**

N/A

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**Recommendations & Reasons for recommended action:**

1. Audit Committee note the amendments made to the Statement of Accounts for 2009/10 as outlined in this report.
  2. Audit Committee approve the action by Officers to not adjust the accounts for the reduction in the teachers unfunded pension liability of £1.661m as outlined in the report.
  3. The Statement of Accounts for 2009/10 as now presented be formally re-approved.
  4. The letter of representation attached at Appendix C is authorised and submitted to the auditor.
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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  
Report to Audit Committee 28 June 2010 re draft Statement of Accounts

**Sign off:**

Fin	MC1011.005	Leg	DS9668	HR	N/A	AM	N/A	IT	N/A	Strat Proc	N/A
Originating SMT Member: Malcolm Coe, AD Finance, Assets and Efficiencies											

## **1. INTRODUCTION**

- 1.1 The draft Statement of Accounts was approved by Audit Committee at its meeting of 28 June 2010. The formal audit commenced on 6 July 2010 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. The changes act to strengthen the disclosure of information only, and do not change the reported position.
- 1.3 The Council is also required to identify and report on any post balance sheet events that have occurred since the date of the original approval. The Statement of Accounts therefore includes all post balance sheet events up to and including the 15 September 2010.
- 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 Amendment to Statements**

- 2.1.1 Following discussions with the Auditor, Council Officers have agreed to amend both the Single Entity and Group Accounts Income and Expenditure Statements to separate the 'gain on sale of subsidiary' (Citybus) from 'other' income.
- 2.1.2 In addition, Officers have adjusted the Group Income and Expenditure Account to remove the line 'Appropriation to group income and expenditure reserve' and thus show the group deficit on the face of the group Income and Expenditure Account.

### **2.2 Disclosure Notes**

#### **2.2.1 Note 36 – Pensions Disclosures**

In line with the recommendation of the auditor, Officers have strengthened the pensions disclosure note 36, by including a table at 36.3 to show the analysis of the pensions liability between:

- LGPS – Funded liabilities
- LGPS – Unfunded liabilities
- Teachers Pensions – Unfunded Liabilities.

2.3 The revised statements are included at Appendix A with the amended disclosure note attached at Appendix B.

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

#### **3.1 Unfunded Pensions Liabilities – Teachers**

The Council has declared a pensions liability of £449.381m on its Balance Sheet as at 31 March 2010. This figure includes a sum of £38.799m in relation to unfunded liabilities of which £20.241m relates to unfunded teachers pension (TPS) liabilities (see amended note 36.3 as outlined Appendix B). Whilst the LGPS unfunded liabilities had been revalued as at 31 March 2010, the TPS unfunded liabilities had not been formally revalued since 31 March 2004. This is not in accordance with Financial Reporting Standard (FRS) 17 Retirement Benefits which requires full actuarial valuations by a professionally qualified actuary to be obtained for all liabilities at intervals not exceeding three years.

Following discussions with the auditor, Council Officers have now obtained an updated valuation of the Teachers unfunded liabilities from the actuary. As a result, the total value of teachers unfunded liabilities has reduced by £1.661m to £18.580m, reducing the overall PCC pensions liability as at 31 March 2010 to £447.720m. Given the value of the adjustment compared to the overall liability, Council Officers have, with the agreement of the Auditor, decided not to adjust the accounts for this variance.

### **4. POST BALANCE SHEET EVENTS**

4.1 Events happening after the 31 March 2010 and up until the date on which the accounts are authorised must be reflected in the accounts if they would have a material effect on the financial position. There is a requirement that this date should be published in the accounts. The relevant date is the date the accounts were re-authorised by the Director of Corporate Support following audit and for 2009/10 reporting purposes this is 15 September 2010. The Council has the following post balance sheet event to report:

As part of the emergency budget announcements in June 2010, the new coalition Government announced that in future the pension increase order applied to public service pension schemes will be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) from April 2011. It is expected that this will generate savings as the CPI will be lower than RPI in future. The Audit Commission has decided that this change represents a non-adjusting post balance sheet event.

Disclosure note 3 has been updated to include this change, as outlined in Appendix B.

- 4.2 The move to CPI will change the valuation of Pension Fund liabilities shown within the authority's accounts. If the CPI had been used for 2009/10 accounts, the Council's pension fund liability as at 31 March 2010 would have been £407.636m, a reduction of £40.084m.

## **5. RECOMMENDATIONS**

- 5.1 Audit Committee note the amendments made to the Statement of Accounts for 2009/10 as outlined in this report.
- 5.2 Audit Committee approve the action by Officers to not adjust the accounts for the reduction in the teachers unfunded pensions liability of £1.661m as outlined in the report.
- 5.3 The Statement of Accounts for 2009/10 as now presented be formally re-approved.
- 5.4 The letter of representation attached at Appendix C is authorised and submitted to the auditor.

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010**

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.

Restated 2008/09		Note	2009/10 Gross Exp. £000	2009/10 Gross Inc. £000	2009/10 Net Exp. £000
£000					
	<b><u>Expenditure on General Fund Services:</u></b>				
5,219	Central Services to the Public	1	26,877	(22,673)	4,204
57,437	Cultural, Environmental, Regulatory & Planning Services		85,523	(29,638)	55,885
67,918	Adult Social Care		91,646	(19,137)	72,509
75,488	Education and Children's Services		328,084	(219,500)	108,584
18,161	Highways & Transport Services		29,255	(12,122)	17,133
107,609	Housing-(Housing Revenue Account)		31,980	(30,448)	1,532
5,843	Other Housing Services		103,301	(100,582)	2,719
5,691	Corporate & Democratic Core		5,334	(106)	5,228
8,475	Non Distributable Costs		4,987	0	4,987
<b>351,841</b>	<b>Net Cost of Services</b>		<b>706,987</b>	<b>(434,206)</b>	<b>272,781</b>
	<b><u>Other Operating Income &amp; Expenditure:</u></b>				
23,091	Loss/(gain) on Disposal of Fixed Assets	4 & 23.2			461,228
(1,214)	Other Income	6			(1,445)
0	Other Income- Gain on sale of Subsidiary	6			(17,465)
190	Precepts & Levies				193
209	(Surplus)/deficit on trading activities not included in Net Cost of Services	5.2			(108)
21,983	Interest Payable and Similar Charges	9			21,855
1,473	Contribution to Devon County Council Pre-Reorganisation Debt	30			1,414
962	Contribution of Housing Capital Receipts to Government Pool	7			564
(15,932)	Interest & Investment Receivable				(7,542)
13,410	Pensions interest cost and expected return on pension assets	36			25,656
<b>396,013</b>	<b>Net Operating Expenditure</b>				<b>757,131</b>
(88,640)	Demand on the Collection Fund	17			(92,837)
(30,086)	General Government Grants	21.2			(38,269)
(88,393)	Non Domestic Rates Distribution				(84,076)
<b>188,894</b>	<b>TOTAL DEFICIT FOR THE YEAR</b>				<b>541,949</b>

APPENDIX A

**GROUP INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010**

Restated 2008/09 Net Exp. £000		Notes	2009/10 Gross Exp. £000	2009/10 Gross Inc. £000	2009/10 Net Exp. £000
	<b><u>Expenditure on General Fund Services:</u></b>				
5,219	Central Services to the Public		26,877	(22,673)	4,204
58,181	Cultural, Environmental, Regulatory & Planning Services	3	99,792	(44,050)	55,742
67,918	Adult Social Care		91,646	(19,137)	72,509
75,488	Children's and Education Services		328,084	(219,500)	108,584
14,575	Highways & Transport Services		25,464	(12,105)	13,359
107,609	Housing - (Housing Revenue Account)		31,980	(30,448)	1,532
5,843	Housing Services - Other		103,301	(100,582)	2,719
5,691	Corporate & Democratic Core		5,334	(106)	5,228
8,475	Non Distributable Costs		4,987	0	4,987
348,999	<b>Subtotal – Continuing operations</b>		717,465	(448,601)	268,864
2,486	Discontinued Operations	2	10,100	(6,578)	3,522
351,485	<b>Subtotal</b>		727,565	(455,179)	272,386
(76)	Share of Operating Result of Associates		5,412	(5,369)	43
2,309	Share of Operating Result of joint ventures		5,978	(3,717)	2,261
<b>353,718</b>	<b>Net Cost of Services of Group c/f</b>		<b>738,955</b>	<b>(464,265)</b>	<b>274,690</b>

## GROUP INCOME &amp; EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010 (CONT)

Restated 2008/09 Exp. £000		2009/10 Exp. £000	2009/10 Inc. £000	2009/10 Exp. £000
353,718	<b>Net Cost of Services of Group b/f</b>	738,955	(464,265)	274,690
	<b><u>Other Operating Income &amp; Expenditure:</u></b>			
23,086	Loss/(gain) on Disposal of Fixed Assets			461,224
(1,214)	Other Income			(1,446)
0	Other Income – Gain on sale of Subsidiary			(10,658)
190	Precepts & Levies			193
209	Surplus)/deficit on trading activities not included in Net Cost of Services			(107)
22,107	Interest Payable and Similar Charges			21,937
0	Share of interest payable of associates			6
866	Share of interest payable of joint ventures			850
1,473	Contribution to Devon County Council Pre-Reorganisation Debt			1,414
962	Contribution of Housing Capital Receipts to Government Pool			564
(15,614)	Interest & Investment Receivable			(7,543)
(7)	Share of interest & investment income of associates			(1)
(92)	Share of interest & investment income of joint ventures			(7)
13,410	Pensions interest cost and expected return on pension assets			25,656
(35)	Share of pensions interest cost and expected return on pensions assets of associates			127
6	Share of pensions interest cost and expected return on pensions assets of joint ventures			96
332	Taxation of group entities			0
23	Share of taxation of associates & joint ventures			(39)
<b>399,420</b>	<b>Net Operating Expenditure</b>			<b>766,956</b>
(88,640)	Demand on the Collection Fund			(92,837)
(30,086)	General Government Grants			(38,269)
(88,393)	Non Domestic Rates Distribution			(84,076)
<b>192,301</b>	<b>TOTAL DEFICIT FOR THE YEAR</b>			<b>551,774</b>



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

<b>Restated 2008/09 £000</b>		<b>2009/10 £000</b>
188,894	(Surplus) or deficit on single entity's I & E for the year	541,949
366	Less: subsidiary & associate dividend income & any other distributions from group entities included in the single entity surplus or deficit on the I & E account – discontinued operations	0
	Add: (surplus) or deficit arising from other entities included in the group accounts analysed into the amounts attributable to:	
52	Subsidiaries	6,493
(100)	Associates	132
3,089	Joint ventures	<u>3,200</u>
<b><u>192,301</u></b>	<b>Group Account (surplus)/deficit for the year</b>	<b><u>551,774</u></b>

## Amendment to Disclosure Notes

### Note 3 - Events After the Balance Sheet

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 one event to report as at 24 September 2010. As part of the emergency budget announcements in June 2010, the new coalition Government announced that in future the pension increase order applied to public service pension schemes will be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) from April 2011. It is expected that this will generate savings as the CPI will be lower than RPI in future. The Audit Commission has decided that this change represents a non-adjusting post balance sheet event.

The move to CPI will therefore change the valuation of Pension Fund liabilities shown within the authority's accounts. If the CPI had been used for 2009/10 accounts, the Council's pension fund liability as at 31 March 2010 would have been £407.636m, a reduction of £40.084m from that shown in the Balance Sheet.

### Note 36- Pensions Disclosures

#### 36.3 Assets and Liabilities in Relation to Retirement Benefits

Analysis of net pension liability in the balance sheet:

	<b>31 Mar 09 £000</b>	<b>31 Mar 10 £000</b>
Net Pension Asset as at		
Present value of funded obligation	(614,710)	(795,452)
Fair value of Schemes assets (bid value)	320,870	384,870
Net Liability	(293,840)	(410,582)
Present value of unfunded obligation – LGPS	(19,080)	(18,558)
Present value of unfunded obligation – Teachers' Pensions	(17,610)	(20,241)
<b>Net Liability in Balance Sheet</b>	<b>(330,530)</b>	<b>(449,381)</b>

Reconciliation of opening and closing balances for scheme assets and liabilities:

<b>Changes to the present value of liabilities during the accounting period</b>	<b>2008/09 £000</b>	<b>2009/10 £000</b>
Opening present value of liabilities	(592,560)	(651,400)
Current Service Cost	(15,930)	(15,999)
Interest Cost	(40,470)	(43,037)
Actuarial gains / (losses) on liabilities	(16,100)	(188,649)
Gains (losses) on curtailments	0	(1,713)
Liabilities extinguished on settlements	8,570	51,908
Estimated benefits paid	14,840	19,935
Past Service Cost	(4,140)	0
Contributions by scheme participants	(7,430)	(7,291)
Unfunded pension payments	1,820	1,995
<b>Closing present value of liabilities</b>	<b>(651,400)</b>	<b>(834,251)</b>
<b>Changes to the present value of assets during the accounting period</b>	<b>2008/09 £000</b>	<b>2009/10 £000</b>
Opening present value of assets	395,210	320,870
Expected rate of return	27,160	17,381
Actuarial gains & (losses)	(108,080)	87,445
Employer contributions	23,180	22,885
Contributions by scheme participants	7,430	7,291
Benefits paid	(14,840)	(19,935)
Settlements	(9,190)	(51,067)
<b>Closing present value of assets</b>	<b>320,870</b>	<b>384,870</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £87.45m (2008/09: (£108.08m)).

**FINANCE SERVICES**

Corporate Resources Department

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PL1 2AA

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Email: [adam.broome@plymouth.gov.uk](mailto:adam.broome@plymouth.gov.uk)[www.plymouth.gov.uk](http://www.plymouth.gov.uk)Date: **24 September 2010**

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol BS1 6FT

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

My Ref:

Your Ref:

Dear Sirs

**Financial Statements for the Year Ended 31 March 2010**

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 24 September 2010.

Signed on behalf of Plymouth City Council

Adam Broome

Director of Corporate Support

Date 24 September 2010

Cllr P Berrow

Chair of Audit Committee

Date 24 September 2010