

CITY OF PLYMOUTH

Subject: Statement of Accounts 2010/11

Committee: Audit Committee

Date: 23 September 2011

Cabinet Member: Councillor Bowyer

CMT Member: Director for Corporate Support

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Ref: ACCT/SW

Key Decision: No

Part: I

Executive Summary:

The Council's draft Statutory Statement of Accounts were prepared and approved ready for audit by the Director for Corporate Support on 30 June 2011. A training and awareness session, reviewing the draft statements, was held for Audit Committee Members on 6 July 2011.

The Accounts have now been audited and are being presented to Audit Committee for approval.

The Accounts and Audit Regulations require the accounts to be formally approved and published by 30 September.

Issues raised by the auditor are outlined in the report, including a summary of the changes made to the main statements and notes since the draft accounts were produced. In particular the auditor has asked the authority to work with Cornwall Council and the respective sets of auditors to review the treatment of Tamar Bridge and Torpoint Ferry in the Authorities accounts.

The final quality review on the document is now being undertaken. The main statements, including the group account statements for 2010/11 are attached and the full document including all the notes to the accounts will follow prior to the Audit Committee meeting.

Corporate Plan 2011- 2014

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 2010/11 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. Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:

N/A

Recommendations & Reasons for recommended action:

1. Audit Committee note the amendments made to the Statement of Accounts for 2010/11 as agreed with the Auditor, and outlined in this report.
 2. The Statement of Accounts for 2010/11 be approved.
 3. The letter of representation attached at Appendix B is authorised and submitted to the Auditor.
 4. Officers work with colleagues in Cornwall Council and the respective auditors to review the treatment of Tamar Bridge and Torpoint Ferry in the Authorities accounts.
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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 2010/11
Budget Papers 2010/11
The Local Authority Code of Accounting Practice 2010 (The Code)
Best Value Accounting Code of Practice 2010 (BVACoP)
Outturn Report to Cabinet 7 June 2011

Sign off:

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|-------------------------------------|-----------------|-----|--------|----|-----|--------------|-----|----|-----|---------------|-----|
| Fin | DJN111 2.012 | Leg | TH0023 | HR | n/a | Corp Prop | n/a | IT | n/a | Strat Proc | n/a |
| Originating SMT Member: Malcolm Coe | | | | | | | | | | | |

Statement of Accounts 2010/11

1. Introduction

- 1.1 The draft Statement of Accounts was approved by the Director for Corporate Support on 30 June 2011. The formal audit commenced on 5 July 2011 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. The Accounts and Audit Regulations require the Statement of Accounts to be approved by the Council by 30 September 2011. For Plymouth, this responsibility has been delegated to the Audit Committee. The final quality review on the document is now being undertaken. The main statements, including the group account statements for 2010/11 are attached and the full document including all the notes to the accounts will follow prior to the Audit Committee meeting.
- 1.2 A number of changes have been made to the Statements following discussions with the auditor and these are outlined in the report.
- 1.3 The Council is also required to identify and report on any post balance sheet events that have occurred since 31 March 2011. The Statement of Accounts therefore includes all post balance sheet events up to and including the 14 September 2011.
- 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 for Corporate Support and the Chair of Audit Committee and is attached at Appendix B.
- 1.5 The Accounts for 2010/11 have been produced on an IFRS basis for the first time and details of the main changes are outlined in section 2 of this report. The auditor has outlined in the ISA 260 report being presented to this Committee that he is satisfied that the Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting 2010/11 (The Code).
- 1.6 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. The Code of Practice on Local Authority Accounting 2010 (The Code)

- 2.1 The Code of Practice on Local Authority Accounting 2010 is the first to be produced on International Financial Reporting Standards (IFRS) and is based on approved standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Committee (IFRIC) except where these are inconsistent with specific statutory requirements.

2.2 The move to an IFRS-based Code from a UK GAAP-based SORP has resulted in a number of significant changes in accounting practice. The key changes applicable to Plymouth's accounts include:

2.2.1 Main Financial Statements

The main financial statements have changed both in format and name. The Statements have generally been simplified with a greater reliance on the detail within notes to the accounts. There is a greater focus on long term and short term assets and liabilities on the Balance Sheet. Short term assets and liabilities represent those expected to be received or settled in the next 12 months after the reporting period. This has led to a number of assets and liabilities having to be split on the Balance Sheet. Examples include insurance and general provisions.

A third Balance Sheet is required in order to present the restated balances as at 1 April 2009 and to support the movement in year of the comparative figures in disclosure notes.

The main statements are attached at Appendix A.

2.2.2 Key Accounting Changes

a. Grants and Contributions

- Grants and contributions for capital purposes are recognised as income immediately rather than being deferred and released to revenue to match depreciation providing there are no outstanding conditions that might result in grant repayment. Regulations do not permit capital grants and contributions to score against the Council Tax and these are required to be reversed out to Balance Sheet reserves in the Movement in Reserves Statement;
- Revenue grants with no outstanding conditions that are earmarked for expenditure but not utilised at year end are posted to an earmarked reserve rather than carried forward through an accrual;
- Revenue and capital grants with outstanding conditions that may require repayment are not released to revenue but carried on the Balance Sheet as a creditor.

b. Accounting for Leases

- Property leases are classified and accounted for as separate leases of land and buildings;
- The '90%' test previously applied to determine the classification of a lease between operating and finance lease has been replaced by more subjective analysis. This has resulted in the reclassification of a small number of property leases where the Authority is a lessee and resulted in many of the Council's vehicle and equipment leases being reclassified from operating to finance leases;
- There is a need to examine the substance of long term contracts to see if they meet the criteria of service concessions or contain an embedded lease. Embedded leases have been identified in the Amey and Virador contracts. The annual payments under these contracts have been analysed to separate the lease elements from the service payment where appropriate.

- c. Accounting for Non-Current Assets
- Operational assets have been renamed as Property, Plant and Equipment;
 - Investment properties are now recognised as a separate asset category and are measured at fair value, with gains or losses, including rental income, recognised as financing and investment income. Previously gains or losses on revaluation were recognised through the Revaluation Reserve and rental income through the relevant service line. There is a much tighter definition of an investment property resulting in a reclassification of a number of the Council's properties as Property, Plant and Equipment and attracting an annual depreciation charge;
 - There is a new asset category for Assets held for Sale. This category generally only applies to those assets actively being marketed for sale. Assets that have been declared 'surplus' but are being held pending an improvement in market conditions are classified as surplus assets but continue to be held within Property Plant and Equipment;
 - There is a greater emphasis on component accounting and on derecognising parts of an asset that are replaced;
 - Impairment losses are now taken to the Revaluation Reserve, and only to the Comprehensive Income and Expenditure Statement when there is no balance on the reserve relating to that asset. Previously impairment losses relating to a decline in economic conditions were taken straight to the Income and Expenditure Statement.
- d. Employee Benefits
- All employee benefits are accounted for as they are earned by the employee. This has resulted in accruals for items such as holiday pay where annual leave has not been taken by 31 March. Regulations allow the impact to be reversed out to a holiday pay accrual account;
 - There is a requirement to account for all termination benefits, e.g. redundancies, when they are agreed rather than when they are paid. This has resulted in additional charges to the 2010/11 accounts but this has been met from the redundancy reserve.
- e. Group Boundary
- There is a change to determining the group boundary and the definition of associates is based on the ability to control rather than actual control. This impacts on the related party disclosure as well as the formal consolidated group accounts.

The changes in accounting practice are required to be applied retrospectively and the accounts for 2009/10 together with the relevant disclosure notes have been restated. Note 2 to the Accounts provides more detail of the changes and the impact on the reported figures.

2.2.3 Disclosure Notes

A number of new disclosure notes have been introduced and for others the format has changed. There is a greater emphasis on looking forward rather than the traditional retrospective look at the year just passed. The most significant new notes include:

- Disclosure of future accounting standards that have been published but not yet approved outlining the impact of the accounting change on future years accounts;
- Assumptions about the future and other major sources of estimation uncertainty;
- Disclosure of judgments made by management in applying the accounting policies;
- Segmental reporting which reconciles the Council's Management Accounts to the Statutory Accounts;
- Termination Benefits.

There are also a number of extended or amended notes, the key areas being:

- Adjustments between accounting basis and funding basis;
- Property Plant and Equipment;
- Investment Properties;
- Intangible Assets;
- Assets Held for Sale;
- Impairment losses;
- Leasing;
- Pensions;
- Notes supporting the Cash Flow Statement.

3. Other issues affecting the Accounts for 2010/11 - Group Accounting Boundary

3.1 There have been changes to the Council's group boundary for consolidated group accounts as follows:

- The Theatre Royal has been removed as a subsidiary with effect from 1 October 2010 following the resignation from the Board of all Council Members. The group accounts therefore include a six month income and expenditure position for the Theatre and Pavilions and all assets and liabilities have been written out of the group Balance Sheet.
- The Council entered a Joint Venture agreement with the University to manage Tamar Science Park in March 2010. This company has now been included within the group accounts and the group Balance Sheet for 2009/10 has been restated to include the relevant assets and liabilities of the Company.

4. Key Messages 2010/11

4.1 Comprehensive Income and expenditure statement (CIES)

4.1.1 Pensions:

- The change of the valuation of pension liabilities from RPI to CPI- a favourable £72m,
- A transfer back of notional pension fund assets from Plymouth Community Homes of £15m

Both entries are shown in the CIES under the Non distributable costs service, resulting in a large variation when compared to the previous year.

4.1.2 Capital grants:
Capital grants of £44m have been released to revenue.

4.1.3 Net deficit for the year:
A deficit of £72.947m, a net decrease of £444.344m from 2009/10, mainly the impact of the stock transfer asset write-out in 2009/10, offset by the pensions changes outlined above and write-out and impairment of schools transferring to Academies in 2010/11.

4.2 Balance Sheet

Net increase in Balance Sheet worth of £89.138m, mainly due to a pensions liability reduction of (£230.068m), offset by asset write-out and impairment for Academy transfers of £81.859m.

4.3 Reserves and Provisions

Overall general reserves remain healthy:

- Working Balance of £11.5m, 5.7% net revenue spend
- Earmarked reserves £33.157m
- Usable capital receipts £22.491m
- Provisions £10.878m

5. **Post Balance Sheet Events**

5.1 Although the Statement of Accounts shows the financial outturn position for 2010/11 and Balance Sheet position as at 31 March 2011, the Council is required to take into account items occurring after 31 March 2011 if they would have a material effect on the figures. Note 7 outlines those events arising after 31 March 2011. The note has been updated to reflect the position as at 14 September 2011, being the date these accounts were authorised for release to Audit Committee. In summary the accounts have been adjusted for:

- Plymouth Community Homes post completion pension Valuation
- Academy Transfers.

The latest position on Plymouth City Airport continues to be reported as a post Balance Sheet event, but the note has been updated to reflect the acceptance by Cabinet of the notice of non-viability from the lessee. As there is a possibility that the operator may decide to sell the airport site in the future, in which case the Council would receive 75% of the sale proceeds, a contingent asset has been added to the Notes to the Accounts.

6. **Audit Amendments to the Accounts**

6.1 The auditor's report outlines a number of changes they are recommending be made to the Accounts. These have been discussed and agreed with Council Officers, and are reflected in the final statements being presented for approval. In summary the amendments, and the impact on the reported position, are as follows:

6.2 Non Current Assets

- The removal of £60.217m from the Balance Sheet in respect of Schools that transferred to Academy status in 2011/12. A corresponding adjustment has been made to the CIES (Children's Services service line) to reflect the removal of the assets as an impairment. This has increased the deficit on the CIES by £56.648m, and Other Comprehensive Income and Expenditure by £3.569m. However as these charges are reversed out via the Movement in Reserves Statement there is no overall impact on the reported final deficit for the year. The net worth on the Balance Sheet has been reduced by £60.217m.
- The reclassification of £4.268m of Community Assets to Infrastructure and £0.664m to Vehicle, Plant and Equipment. No impact on Balance Sheet net worth.
- The reversal of £7.970m relating to revaluation of Community Assets based on insurance value. Decrease in Balance Sheet net worth of £7.970m.
- Clarification that £2.356m of community assets had been added to the Balance Sheet as an addition, not as a result of a revaluation. No impact on net Balance Sheet worth.

6.3 Pensions

An adjustment to the value of pensions assets at year end of £2.899m to reflect Plymouth's share of the final valuation of the assets in the pension fund. The adjustment will reduce the deficit on the Balance Sheet and thus increase the Council's net worth on the Balance Sheet.

6.4 Current Assets/Liabilities

- An adjustment of £0.400m to short term debtors and creditors relating to a credit note issued after year end against a section 106 invoice
- An adjustment of £0.378m between short term debtor and cash for overpaid schools funding.

No impact on overall Balance Sheet net worth from these adjustments.

6.5 CIES

An increase in Expenditure on Cultural, Environmental, Regulatory and Planning services of £0.212m, offset by a reduction in Taxation and non specific grant income. No overall impact on net deficit for year.

6.6 Restatement 2009/10

The inclusion of Tamar Science Park in the restated single entity accounts for 2009/10. As included in long term investments with a matching long term liability representing the deferred payment of the Councils contribution, there is no overall impact on net Balance Sheet worth.

6.7 Disclosures

The inclusion of a contingent asset in respect of Plymouth airport and an update to the post Balance Sheet note.

7. Future Treatment- Joint Committee Accounts

- 7.1 At the start of the audit, Cornwall Council was advised by its external auditors that following legal advice, joint committees were not able to take advantage of the statutory overrides relating to depreciation, pensions etc that local authorities enjoy and whilst Cornwall's auditors have agreed a work around solution for 2010/11, Plymouth's external auditors have requested that a full review of the treatment of the Tamar Bridge and Torpoint Ferry Joint Committee's accounts by the respective authorities should be undertaken in advance of the 2011/12 Statement of Accounts.

8. Recommendations

- 8.1 Audit Committee note the amendments made to the Statement of Accounts for 2010/11 as agreed with the Auditor, and outlined in this report.
- 8.2 The Statement of Accounts for 2010/11 be approved.
- 8.3 The letter of representation attached at Appendix B is authorised and submitted to the Auditor.
- 8.4 Officers work with colleagues in Cornwall Council and the respective auditors to review the treatment of Tamar Bridge and Torpoint Ferry in the Authorities accounts.