

## PLYMOUTH CITY COUNCIL

**Subject:** Statement of Accounts 2011/12  
**Committee:** Audit Committee  
**Date:** 27 September 2012  
**Cabinet Member:** Councillor Lowry  
**CMT Member:** Director for Corporate Services  
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**Ref:** ACCT/CF  
**Key Decision:** No  
**Part:** I

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### **Purpose of the report:**

The Council's draft Statutory Statement of Accounts were prepared and approved ready for audit by the Director for Corporate Services on 29 June 2012.

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 since the draft accounts were produced. The revised Statement of Accounts for 2011/12 is attached at Appendix A.

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### **Corporate Plan 2012 – 2015:**

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 2011/12 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. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:**

N/A

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**Recommendations & Reasons for recommended action:**

1. Audit Committee note the amendments made to the Statement of Accounts for 2011/12 as agreed with the Auditor, and outlined in this report.
2. The Statement of Accounts for 2011/12 attached at Appendix A be approved.
3. The letter of representation attached at Appendix B is authorised and submitted to the Auditor.
4. Officers continue to review the production and contents of the Statement of Accounts with a view to securing further improvements for the 2012/13 Statement of Accounts.

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

None – It is a statutory requirement to produce and approve the Statement of Accounts.

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**Background papers:**

Final Accounts Working Papers 2011/12

Budget Papers 2011/12

The 2011/12 Code of Practice on Local Authority Accounting (the Code)

Service Reporting Code of Practice for Local Authorities 2011/12 (SeRCOP)

Outturn Report to Cabinet 12 June 2012

Draft (Pre-Audit) Statement of Accounts 2011/12

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**Sign off:**

Fin	CDR/CORPSF FC1213001	Leg	SC/15651	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member Malcolm Coe											
Have you consulted the Cabinet Member(s) named on the report? Yes											

## **Statement of Accounts 2011/12**

### **1. Introduction**

- 1.1 The draft Statement of Accounts 2011/12 was approved by the Director for Corporate Services on 29 June 2012. The formal audit commenced on 2 July 2012 and has been ongoing until now. The External Auditor's Governance Report (ISA260 Report), including the findings on the annual accounts audit and an action plan addressing key audit issues, 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 2012. For Plymouth, this responsibility has been delegated to the Audit Committee.
- 1.2 There have been no changes made to the main financial statements since the publication of the draft Statement of Accounts at the end of June 2012. However a number of changes have been made to the disclosure notes within the statements following discussions with the auditor and these are outlined in the report. The revised Statement of Accounts for 2011/12 is attached at Appendix A. Although further amendments are not anticipated, the auditor is currently undertaking a final quality review and it is still possible that minor amendments will be required before publication. Should there be any such changes these will be highlighted to the Audit Committee at the meeting.
- 1.3 The Council is also required to identify and report on any post balance sheet events that have occurred since 31 March 2012. The Statement of Accounts therefore includes all post balance sheet events up to and including the 18 September 2012.
- 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 Services and the Chair of Audit Committee and is attached at Appendix B.
- 1.5 The Accounts have been produced in line with the relevant CIPFA Codes of Practice for 2011/12 and details of the main changes in the Codes 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 complied in accordance with the Code of Practice on Local Authority Accounting 2011/12 (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 2011/12 Codes of Practice**

- 2.1 There are two main Codes of Practice relevant to the production of the Statement of Accounts which CIPFA publish on an annual basis:-

- The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code)
- The Service Reporting Code of Practice for Local Authorities (SeRCOP)

## 2.2 The Code of Practice on Local Authority Accounting 2011/12 (the Code)

2.2.1 The 2011/12 Code of Practice on Local Authority Accounting (the Code) 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.

2.2.2 The key changes applicable to Plymouth's accounts for 2011/12 include:-

- Adoption of FRS30 Heritage Assets to separately identify and report on the value of assets held by the Authority for their cultural, environmental or historical associations; examples being Drakes Cup and the Astor Diamonds.
- A new requirement to disclosure employee exit packages.

### 2.2.3 Adoption of FRS30 Heritage Assets

The adoption of FRS30 Heritage Assets has brought a new category of Non Current Assets into the balance sheet. The Council has reviewed its disclosure of Community Assets to identify any items that meet the criteria for classification as Heritage Assets. This review has resulted in a number of assets being identified for reclassification and in addition, a number of assets that could be recognised on the balance sheet for the first time being reinstated as at 1 April 2010.

The change of treatment has a material impact on the Council accounts, with Heritage Assets of £19m now being recognised on the balance sheet. A breakdown of the category of assets is disclosed in Note 13 to the financial statements.

### 2.2.4 Disclosure re employee exit packages.

This new disclosure requirement means authorities must now report the number and value of severance payments made to employees, analysed between compulsory redundancies and other departures. The information must be reported in financial bands which can be combined where this is necessary to ensure that individual exit packages cannot be identified (Note 29.3 to the Financial Statements refers).

## 2.3 The Service Reporting Code of Practice for Local Authorities (SeRCOP)

2.3.1 The Service Reporting Code of Practice (SeRCOP) replaces the Best Value Accounting Code of Practice (BVACOP) from 2011/12. CIPFA has introduced this revised Code for local authorities following the incorporation of

requirements re International Financial Reporting Standards (IFRS) and the Governments transparency agenda.

- 2.3.2 The main change within the 2011/12 SeRCOP, which is evident within the Accounts, is the revised Service Expenditure Analysis shown within the Comprehensive Income and Expenditure Statement. Income and Expenditure previously reported under the heading Culture, Environment, Regulatory and Planning Services has now been split into three – Cultural and Related Services, Environmental and Regulatory Services and Planning Services. The 2011/12 comparative figures have been restated to reflect the new analysis.

### **3. Other issues affecting the Accounts for 2011/12**

#### **3.1 Incorporation of Tamar Bridge & Torpoint Ferry Operation into the Council's single entity accounts**

- 3.1.1 Following a recommendation from the auditor in the 2010/11 ISA260 report, a full review of the accounting treatment in respect of the Tamar Bridge and Torpoint Ferry Joint Committee (TBTFJC) has been undertaken. This review took place during 2011/12 involving both Officers from the Council and Cornwall Council together with the respective auditors. The findings of the review were as follows:

- Plymouth City Council and Cornwall Council have joint effective control over the general operations of the TBTFJC and its financial and operating policies.
- It has been established that the Council's interest in TBTFJC falls under the definition included within the code of a Joint Controlled Operation not a Jointly Controlled Entity. This is primarily due to the Joint Committee's inability to enter into contracts in its own name or raise finance for the purposes of the joint activity.
- Both parties have a 50% right (both legally and contractually) to the assets and obligations for the liabilities and the two parties share all interests in the assets.
- There is no investment value as no amount was contributed by the Joint Committee partners.

- 3.1.2 The change of definition to Jointly Controlled Operation has led to a change in accounting treatment. The Council for the first time included its 50% interest in the assets and liabilities of The Tamar Bridge & Torpoint Ferry Joint Committee into its single entity accounts on a line by line basis.

- 3.1.3 This change of treatment has a material impact on the Council's accounts. The main impact is to bring in half of the value of the Tamar Bridge (over £200m) onto the Council's balance sheet. In total some £103.9m of net assets have been brought onto the Council's restated balance sheet as at 1 April 2010, offset by £0.4m in earmarked reserves and £103.5m in unusable reserves.

### 3.2 Group Accounts not required for 2011/12

- 3.2.1 Following the reclassification of the TBTFJC, a review of the other related group entities shows that the materiality effect of the other entities either individually or collectively on the asset / liability balances stands considerably below 5%. The largest entity is Tamar Science Park and it is not considered to be significant in terms of the level of provision of statutory services, and therefore group accounts have not been required.
- 3.2.2 The preparation of single entity accounts is considered to provide more succinct and relevant information to the potential users of the accounts. These accounts are comprehensive and explanatory and the activities of the other entities are not considered to be significant to the representation of operational activities of the authority as a whole. Their financial information is separately available.

### 3.3 Review of the Statement of Accounts document

- 3.3.1 The Audit Commission published a briefing paper in January 2012, 'Let's be Clear - Making local authority IFRS accounts more accessible and understandable'. The paper focused on the complexity of local authority accounts and the fact that these documents are very long, with a large quantity of explanatory material to support the financial statements. This problem is not unique to local government or the UK, and the coming years may well see action taken to try to reduce unnecessary complexity and the length of accounts.
- 3.3.2 With this in mind, Officers undertook a review of the content of the Accounts as the authority's 2010/11 document ran to nearly 200 pages against the average for an unitary authority of around 140 pages. The review was undertaken in line with the disclosure requirements within the Code and in consultation with the auditor, and the result is the 2011/12 document being considerably reduced in length to 120 pages.
- 3.3.3 Officers will continue to review the content of the document during 2012/13 with the aim of making further improvements on the work done this year.

### 3.4 Removal of the Housing Revenue Account

The 2011/12 accounts no longer include any sections relating to the Housing Revenue Account following its formal closure on the 31 March 2011. This was as a consequence of the transfer of Housing Stock to Plymouth Community Homes in 2009.

### 3.5 Separate publication of the Annual Governance Statement

This year the Statement of Accounts does not incorporate the Annual Governance Statement (AGS). The AGS is a key Council document in its own right and was reported to Audit Committee on 21 June 2012. Although previously it was included as part of the Statement of Accounts, this is not a statutory requirement.

#### **4. Restatement of the 2010/11 Accounts**

- 4.1 Both the change of accounting policy in response to adoption of FRS30 Heritage Assets and the change of treatment of TBTFJC has led to the need to restate various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2010/11.
- 4.2 The Code requires a third opening Balance Sheet when an authority applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. The 2011/12 Balance Sheet and related disclosure notes therefore present the financial position at the 3 relevant dates being 1 April 2010, 31 March 2011 (2010/11 opening and closing balances) and 31 March 2012.

#### **5. Key Messages 2011/12**

##### **5.1 Comprehensive Income and expenditure statement (CIES)**

The Council incurred a deficit of £22.502m on the Provision of Services in 2011/12. This compares to a restated deficit of £73.822m in 2010/11. The difference is due to significant impairments on asset values charged to Children's and Educational Services, and losses on disposals in 2010/11, both of which relate to the accounting treatment of the transfer of schools to academies.

##### **5.2 Balance Sheet**

The Council's net worth at 31 March 2012 as represented on the Balance Sheet is £206.928m, compared to £335.676m at 31 March 2011. The reduction is due in the main to an increase in the long-term pension liability of £115.916m.

##### **5.3 Reserves and Provisions**

Overall, general reserves remain healthy:

- Working Balance of £11.301m, 5.5% net revenue spend
- Earmarked reserves £26.437m
- Usable capital receipts £9.289m
- Provisions £10.686m

#### **6. Post Balance Sheet Events (PBSE)**

- 6.1 Although the Statement of Accounts shows the financial outturn position for 2011/12 and Balance Sheet position as at 31 March 2012, the Council is required to take into account items occurring after 31 March 2012 if they would have a material effect on the figures. Note 7 outlines those events arising after 31 March 2012. The note has been updated to reflect the position as at 18 September 2012, being the date these accounts were authorised for release to Audit Committee.

- 6.2 There is one PBSE reported in Note 7 of the financial statements relating to the Heart of the South West Local Enterprise Partnership (HotSWLEP). The Council became the Accountable Body for HotSWLEP during 2011/12, being one of the partners in this newly formed economic alliance together with Torbay Council, Devon County Council and several private sector organisations. However, since the draft statements were published, and with the agreement of all relevant parties, responsibility for the financial administration of the LEP has transferred to Devon County Council (DCC). It was established that DCC has greater capacity to undertake the role of the Accountable Body with regard to the evolving nature of the fund. This change only affects the administration of the LEP and the Council continues to be fully committed to the initiative in all other aspects. At the year-end the Council held £21m on behalf of the LEP; this is reflected in the accounts and was not affected by the PBSE.

## **7. Agreed Audit Amendments**

- 7.1 The auditor's report outlines a number of changes they are recommending be made to the draft 2011/12 Statement of Accounts published in June. These have been discussed and agreed with 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:

### **7.2 Amendments to the Main Financial Statements**

There have been no changes to the main financial statements from those presented in the draft Accounts in June.

### **7.3 Amendments to Disclosure Notes**

- 7.3.1 The following disclosure notes have been amended:

- Note 7 - Events after the Balance Sheet Date – updated to reflect events up to 18 September 2012
- Note 12.1 Property, Plant and Equipment – corrections to the analysis of Movement in the year for both 2010/11 and 2011/12 (further details on this are reported in the External Auditor's report also on this agenda)
- Note 12.3 Trust, Foundation, Voluntary Aided and Academy Schools – amended to include reference to Academy schools previously omitted
- Note 17.5 Nature and Extent of Risks Arising from Financial Instruments – disclosure updated to reflect further repayments of £0.080m received in relation to the Icelandic Banks since the draft accounts were published
- Note 29.2 - Remuneration above £50,000 – removal of TBTFJC employees as salaries fall below £50,000 threshold when PCC 50% share used
- Note 30 - External Audit Costs – correction of analysis of fees; total remains the same
- Note 35.11 Basis for Estimating Assets and Liabilities – correction to percentage rates

- 7.3.2 In addition, there have been various grammatical and punctuation corrections to the document identified by both Officers and the Auditor.



## **8. Audit issues not amended**

- 8.1 The Auditor has advised that the Council should follow the LAAP guidance in respect of the treatment of Icelandic Bank investments and associated outstanding liabilities. The Council has maintained a consistent approach over the last few years of being prudent, and only reducing the impairment as repayments are actually received.
- 8.2 The auditor has continued to recommend writing out pre-2000 Council Tax debt of £4.7m. However, as the Council is still receiving payments in relation to this debt, further work needs to be undertaken to gain a clearer position in relation to the likely recovery levels before the write-off is completed. As this debt is fully provided for there will be no net impact on either the Collection Fund or the Council's overall financial position. The write-off of these debts will be completed and managed within the framework of our current financial regulations, and the associated bad debt provision reduced as appropriate during 2012/13.

## **9. Recommendations**

- 9.1 Audit Committee note the amendments made to the Statement of Accounts for 2011/12 as agreed with the Auditor, and outlined in this report.
- 9.2 The Statement of Accounts for 2011/12 attached at Appendix A be approved.
- 9.3 The letter of representation attached at Appendix B is authorised and submitted to the Auditor.
- 9.4 Officers continue to review the production and contents of the Statement of Accounts with a view to securing further improvements for the 2012/13 Statement of Accounts.

# STATEMENT OF ACCOUNTS 2011/12



## **CONTENTS**

EXPLANATORY FOREWORD TO THE STATEMENT OF ACCOUNTS 2011/12	3
STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS	17
MOVEMENT IN RESERVES STATEMENT FOR THE YEARS ENDED 31 MARCH 2011 AND 2012	18
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT AT 31 MARCH 2012	19
BALANCE SHEET AT 31 MARCH 2012	20
CASH FLOW STATEMENT	21
NOTES TO THE FINANCIAL STATEMENTS	22
COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2012	109
GLOSSARY OF FINANCIAL TERMS	113

# EXPLANATORY FOREWORD TO THE STATEMENT OF ACCOUNTS 2011/12

## Introduction

The Statement of Accounts is published to show local people and others what services the Council has spent money on during the year and how these have been funded and show the results of the stewardship and accountability of elected members for the resources entrusted to them. Inevitably it contains technical language and a glossary to help explain some of the terms can be found at the back of the publication.

The Accounts and Audit (England) Regulations 2011 require the Council's Section 151 Officer, the Director for Corporate Services, to certify that the accounts present a 'true and fair' view of the financial position of the Council as at the 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Although the Statement of Accounts shows the financial outturn position for 2011/12 and Balance Sheet position as at 31 March 2012, the Council is required to take into account items occurring after 31 March 2012 if they would have a material effect on the figures presented and to publish the relevant date. The Draft Statement of Accounts therefore includes all post Balance Sheet events up to and including the 18 September 2012.

The Statements are required to be prepared in accordance with the Code of Practice on Local Authority Accounting, which is represented by two key documents:

- Code of Practice on Local Authority Accounting applicable for the 2011/12 accounts (The Code)
- The Service Reporting Code of Practice (SeRCOP) which replaces the Best Value Accounting Code of Practice (BVACOP) from 2011/12.

These codes are updated annually by the Chartered Institute of Public Finance and Accountancy (CIPFA). The main changes for the 2011/12 accounts are discussed overleaf.

The Council's statements have been prepared with due regard to the following:

## Quality of information

**Relevance** – providing financial information that is useful for assessing the stewardship of public funds and for making economic decisions.

**Reliability** – providing financial information that properly represents what it purports to represent, is neutral, free from material error, is complete within the bounds of materiality and which has been prudently prepared.

**Comparability** – is consistent and can be compared with the previous year's activity.

**Understandability** – allowing the reader to interpret the financial position of the Council.

**Materiality** - an item of information is material to the Financial Statements if its misstatement or omission might reasonably be expected to influence assessment of Plymouth City Council's stewardship, economic decisions or comparison with other organisations, based on those financial statements.

## Overriding Accounting Concepts:

**Accruals** – Financial Statements other than the Cash Flow Statement are prepared on an accruals basis.

**Going Concern** – The accounts are prepared on the assumption that Plymouth City Council will continue in operational existence into the foreseeable future i.e. there is no intention to significantly curtail the scale of the operation.

**Legislative Requirements** – It is a fundamental principle that where specific legislative requirements and accounting principles conflict, legislative requirements take precedence.

## Issues affecting the Accounts for 2011/12

### Incorporation of Tamar Bridge & Torpoint Ferry Operation as part of Council's single entity accounts

The Tamar Bridge & Torpoint Ferry Joint Committee (TBTFJC) has now been classified as a Joint Operation by both Plymouth City Council and Cornwall Council and therefore 50% of the Committee's accounts have been incorporated within each Council's accounts. TBTFJC had previously been included within the Authority's Group Account Statements. This change has required restatement of all the Authority's main financial statements and accompanying disclosure notes for 2010/11.

A review of other related group entities shows that the materiality effect of the other entities either individually or collectively on the asset / liability balances stands considerably below 5%. The largest entity is Tamar Science Park and it is not considered to be significant in terms of the level of provision of statutory services, and therefore group accounts have not been required.

The preparation of single entity accounts is considered to provide more succinct and relevant information to the potential users of the accounts. These accounts are comprehensive and explanatory and the activities of the other entities are not considered to be significant to the representation of operational activities of the authority as a whole. Their financial information is separately available.

### 2011/12 Accounting Code of Practice Changes

The 2011/12 Statement of Accounts has been prepared in line with CIPFA's codes of practice, the key changes which impact are as follows:

- Adoption of FRS30 Heritage Assets to separately identify and report on the value of assets held by the Authority for their cultural, environmental or historical associations.
- Additional disclosures in respect of employee remuneration and exit packages.

### Other significant changes

The 2011/12 accounts no longer include any sections relating to the Housing Revenue Account following its formal closure on the 31 March 2011. This was as a consequence of the transfer of Housing stock to Plymouth Community Homes in 2009.

In addition, this year the Statement of Accounts does not incorporate the Annual Governance Statement (AGS). The AGS is a key Council document in its own right and was reported to Audit Committee on 21 June 2012 and can be found on the following link.

[http://www.plymouth.gov.uk/mglInternet/documents/s38881/8%20-%20Annual\\_Governance\\_Statement\\_2011%2012\\_Report\\_to\\_Audit\\_Committee\\_21st\\_June\\_2012.pdf](http://www.plymouth.gov.uk/mglInternet/documents/s38881/8%20-%20Annual_Governance_Statement_2011%2012_Report_to_Audit_Committee_21st_June_2012.pdf)

It describes the Council's governance arrangements and systems of risk management control to manage/minimise the Council's exposure to risk. Previously it was included as part of the Statement of Accounts, however this is not a statutory requirement, providing there is a clear link referenced.

## **Overview of the Accounting Statements**

A full list of the Authority's accounting statements for the year 2011/12 is set out in the contents page at the beginning of this document. The Statements contain a number of technical terms, many of which are explained in the Glossary at the end of this document. The main statements are explained below:

### **Movement in Reserves Statement (page 18)**

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' i.e. those that can be applied to fund expenditure or reduce local taxation, and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/(Decrease) before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### **Comprehensive Income and Expenditure Statement (page 19)**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with Regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Council incurred a deficit of £22.502m on the Provision of Services in 2011/12. This compares to a restated deficit of £73.822m in 2010/11. The difference is due to significant impairments on asset values charged to Children's and Educational Services, and losses on disposals in 2010/11, both of which relate to the accounting treatment of the transfer of schools to academies.

### **The Council's Balance Sheet (page 20)**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use, e.g. the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt. The second category of reserves relates to those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses e.g. the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under Regulations'.

The Council's net worth at 31 March 2012 as represented on the Balance Sheet is £206.928m, compared to £335.676m at 31 March 2011. The reduction is due in the main to an increase in the long term pensions liability of £115.916m.

### **The Cash Flow Statement (page 21)**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

### **The Collection Fund Account (page 109)**

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates. The Collection Fund is a separate statutory fund, which details the transactions in relation to Non-Domestic Rates (Business Rates) and the Council Tax, and the distribution to preceptors and the General Fund. The Collection Fund balances are consolidated with the other balances of the Council (as the billing Authority) in the Council's Balance Sheet (page 20).

### **Review of 2011/12**

The Council agreed its annual budget for 2011/12 on 28 February 2011 at £208.237m net and during the year both Cabinet and Overview and Scrutiny Management Board have received quarterly budget and performance monitoring reports identifying forecast variances against the approved budget. The final report for 2011/12 was presented to Cabinet on 12 June 2012. The budget and subsequent monitoring reports within this Explanatory Foreword are based on the Council's management accounts. At the end of the year a number of presentational and accounting entries are made to the management accounts in order to take account of the requirements of The Code and produce the statutory Statement of Accounts in a format consistent across all authorities. The following pages summarise the Council's financial performance for the year and, where applicable, compares the management accounts to the statutory statements.

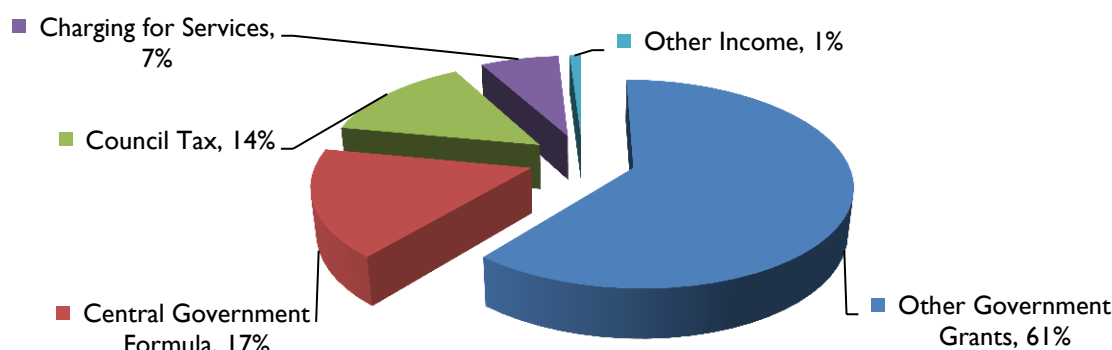
## General Fund Revenue Account

The General Fund Revenue Account forms the main element of the Council's expenditure and covers the majority of the activities of the Council. The Council's final net expenditure for the year was £208.350m (including additional transfers to and from provisions and reserves as required in accordance with statutory provisions) an adverse variation of (£0.113m). The deficit for the year has been met from the General Fund Working Balance as approved at Cabinet on 12 June 2012.

The revenue budget is financed from Council Tax, fees and charges, Government grants, external contributions and other income. The following diagram is helpful in understanding how the 2011/12 revenue budget was financed:-

Figure 1

### 2011/12 Income Sources



The Council set a band D Council Tax for the year of £1,244.67 at its meeting of 28 February 2011, which represented no increase from the previous year as the Council accepted a central government council tax freeze grant.

## Directorate Outturn for 2011/12

Table 1 shows the performance of each Directorate against the approved budget for the year.

Table 1

Directorate	Latest Approved Net Budget £000	Actual Net Expenditure £000	Variation From Approved Budget £000	Variation From Approved Budget %
Director for Children's Services	49,292	47,463	(1,829)	(3.71%)
Director for Community Services	107,905	110,046	2,141	1.98%
Director for Development & Regeneration	18,326	18,404	78	0.43%
Director for Corporate Support	29,566	29,428	(138)	(0.47%)
Chief Executive	2,611	2,636	25	0.96%
Corporate Items and Capital Financing	537	(362)	(899)	167.41%
<b>Sub Total</b>	<b>208,237</b>	<b>207,615</b>	<b>(622)</b>	<b>(0.30%)</b>
End of year transfers to/(from) specific reserves and provisions in relation to corporate health adjustments		735	735	n/a
Total General Fund Budget	208,237	208,350	113	0.05%
Transfers to/(from) Council's Working Balance		(113)	(113)	n/a
<b>Final Budget Requirement</b>	<b>208,237</b>	<b>208,237</b>	<b>0</b>	<b>0</b>

Note: ( ) denotes surplus/favourable

The management accounts have been reported in the structure which was in place for the majority of the financial year with five directorates, which has now been reduced to four.

In line with previous years, Cabinet set budget variation targets of no more than 1% for overspends and 2% underspend for 2011/12. Individual departmental variances are reported within quarterly monitoring reports. This was supplemented by detailed departmental performance scorecards which brought together variations in both budget and performance with the narrative within the scorecards intended to provide a high level overview with a focus on explaining corrective action where required. Although formal public reporting has been on a quarterly basis, monthly scorecards were submitted to Corporate Management Team (officers) and Cabinet Planning (cabinet council members).

Whilst the final position for the year does show that the budget variation targets was exceeded in Community Services in terms of a budget overspend just above the target, this was more than offset by favourable variances in other areas as a result of specific management action to deliver a break even budget overall. Close monitoring of the budget enabled timely action to be implemented to bring the overall budget under control. The final variation at 0.05% adverse remains well within the target set.

There were no other unusual or material items to report in the management accounts, although note 6 page 47 outlines material transactions in relation to the statutory accounts.

The main issues faced by the Directorates during the year were as follows:

### **Childrens Services**

#### **Life Long Learning**

The department's year-end position reflected a favourable position of (£0.845m) before year-end adjustments. The savings relate to the early achievement of delivery plans within the 2013/14 budget and vacancy savings. Additional savings have occurred as departmental redundancy costs being met centrally.

#### **Learner and Family Support**

The favourable year-end position of (£0.808m) stems from delivery plans achieving more savings than originally forecast plus efficiencies within the Education Catering Service. Previously reported budget pressure in transport has been managed down. Delays in recruiting to new structures have led to additional in-year savings against some planned projects.

#### **Children's Social Care**

Social Care achieved a favourable variation of (£0.346m) for the year, despite the increased expenditure in the final quarter. The year-end position includes slippage in commissioning and the youth crime prevention activity. The number of residential placements has increased from 20 to 21 (against a target of 13) and the number of Independent Sector Foster placements has increased from 65 to 67 (against a target of 56). Overall, the numbers and cost of those placed within Independent and residential settings has increased particularly around parent and child assessment placements.

### **Community Services**

#### **Environmental Services**

The year-end position of £26.556m translates into a £1.074m overspend. This is attributable to the fact that not all the targeted savings were achieved together with the following adverse factors: increased waste tonnages for the year of 78,665 compared to forecast 78,000, higher waste collection vehicle charges, A38 litter clearance costs and the write off of the Landfill Allowance Tax balances due to this year being a "target year" (surpluses cannot be carried forward). This has been offset by transport savings through new glass recycling contract, slippage with spend on in-cab technology for trade waste service and washer unit repairs.

#### **Adult Social Care**

The year-end position, before corporate adjustments is break even against a budget of £71.845m. Health and social care funds have enabled the service to continue to meet demands for care and avoid raising the eligibility criteria for the service, mitigating an adverse impact upon the whole health and social care system. The strategy to utilise health and social care funds has been agreed with colleagues in Health and approved by Cabinet. The main pressures within Adult Social Care have been reported during the year and include increased supported living costs across a range of client groups in particular Learning Disability. In addition, health funds for social



care have also been used to implement more preventative services such as reablement, practical support to live at home and improving information, advice and advocacy. Not all the £6.213m health for social care fund could be utilised in 2011/12. Therefore £2.234m will be carried forward to fund activities within the programme that have slipped into 2012/13, for example disabled facilities grants and a number of smaller projects in addition to continuing to address known pressures.

## **Development & Regeneration**

Overall the Directorate has remained within budget tolerance (minor overspend of £0.078m) and is performing favourably with few current high risks. The overall economic environment remains challenging and worklessness, particularly amongst the young, is a major concern, though our performance here is around the national average. Recent proposals for building a new ice rink and remodelling the Pavilions indicates that there is confidence in the city's future. The East End public transport scheme has been completed and a cross sector task force is trying to influence the forthcoming Greater Western rail franchise. The Council is working on delivering new and affordable homes and bringing empty homes back into use. Significant planning applications have been approved, including the Energy from Waste Scheme, and bids have been made to a number of government funding streams. BT has announced the further roll out of superfast broadband across more parts of the city. An Urban and Community Asset Transfer Policy is currently being developed.

## **Corporate Support**

The Directorate's final net revenue outturn was £29.434m, a minor underspend of £0.132m.

## **Finance, Assets and Efficiencies**

Improvements to Revenues and Benefits processing times were starting to materialise by the end of the financial year. The service will continue to reduce processing times and the service is now looking at achieving an overall target of 15 days by August 2012 (compared to 30 days as at the beginning of 2011). For the third year in a row, the actual percentage of income collected for Council Tax has improved and now stands at 96.30%.

## **ICT**

Availability of the top 14 services has consistently remained above target throughout the year. A bug in the Microsoft software affected performance for March 2012, however relevant fixes have addressed this problem.

## **Human Resources**

Sickness absence for 2011/12 amounted to an average of 9.78 days per FTE across the Council. This is an improvement of 2.14 days per employee compared with 2010/11 where the average was 12.92 days per FTE.

## **Overall Position**

In light of this, and as an integral part of the financial health review for the year, Cabinet approved a number of transfers to/from provisions and reserves. The net effect resulted in a deficit for the year of £0.113m. (Prior to minor adjustments identified during the preparation of the Statement of Accounts).

## **Working Balance**

The Working Balance at the start of the year was £11.413m. After taking into account the final deficit for the year totalling £0.112m (including other minor adjustments identified during preparation of the statutory accounts), the Working Balance at 31 March 2012 was £11.301m.

A Working Balance of £11.301m equates to 5.5% of the net revenue budget for 2012/13 and remains in line with the Medium Term Financial Strategy (MTFS) which is to maintain a Working Balance of at least 5%.

A reconciliation of the Management Accounts, reported to Cabinet on 12 June 2012, to the Movement in General Fund Balance as per the statutory Movement in Reserves Statement on page 18, is shown below. A more detailed reconciliation is contained in the amounts reported for resources allocation decisions note 24 page 79.

Reconciliation of Management Accounts to Statutory Accounts shown in the following table:

Table 2.

	<b>PCC prior to consolidation TBTFJC £000</b>	<b>TBTFJC * £000</b>	<b>Total £000</b>
<b>Final positions reported in Outturn reports</b>	112	(476)	<b>(364)</b>
Transfer to TB&TFJC Earmarked Reserve		476	<b>476</b>
<b>Net transfer from Working Balance</b>	<b>112</b>	<b>0</b>	<b>112</b>
Deficit on provision of services as per CIES (page 19)	21,013	1,489	<b>22,502</b>
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 8 page 48)	(12,808)	(1,965)	<b>(14,773)</b>
<b>Net (increase)/decrease before transfers to Earmarked Reserves</b>	8,205	(476)	7,729
Transfers (to)/from earmarked Reserves	(8,093)	476	<b>(7,617)</b>
<b>(Increase)/decrease in Working Balance for the year</b>	<b>112</b>	<b>0</b>	<b>112</b>

\* This represents 50% share of TBTFJC as PCC's share

### Trading Operations

The Council continues to operate a number of trading operations, although for internal trading operations such as catering and building cleaning the trading outturn is included within the relevant departmental figures. However some non-statutory services continue to be operated as separate trading or ring fenced accounts and for which separate reserve accounts are maintained, the main ones being:

- Off Street Parking
- On Street Car Parking
- City Market

Any surpluses and deficits from these trading operations are retained in the relevant Reserve accounts. This is after any budgeted contributions to General Fund activities.

The final position on the trading accounts for 2011/12 is shown in table 3.

Table 3

<b>Trading Activity</b>	<b>Trading Estimates 2011/12 £000</b>	<b>Final Trading Position for 2011/12 £000</b>	<b>Variation to Estimate £000</b>
City Market	67	143	76
Off Street Parking	(805)	(424)	381
On Street Parking	(1,539)	(1,702)	(163)

The trading operations continue to be affected by recessionary pressures. The parking accounts in particular have seen a reduction in parking fee income, however for on street parking in particular this has been partially offset by increased penalty charge notice (PCN) income.

The Statutory Accounts differ from the Council's management accounts for these operations due to adjustments for the following items:

- Pension costs under IAS19
- Capital Charges
- Employee benefit accruals

Further detail on the trading operations is given in note 25 page 83.

## Capital

The Council's capital programme for 2011/12 was approved at £85.201m however with the new approvals and slippage that were approved in April 2011, this was amended to £98.216m.

Capital expenditure generally relates to the creation of fixed assets and other items with a useful life or benefit of greater than one year. In many instances capital expenditure on a scheme will extend beyond one year and it is therefore normal for there to be variations in the programme during the year.

The final capital spend for the year was £72.472m. Table 4 shows details of the performance for each Directorate in terms of the achievement of the capital programme against the original budget and the final revised budget (the main movement between the original and revised budgets was the reprofiling of the £19m academy schemes).

Table 4

Directorate	Original Budget £000	Revised Budget £000	Outturn £000	Variation to Revised Budget £000
Corporate Support	10,274	7,662	6,375	(1,287)
Development and Regeneration	24,171	28,321	25,567	(2,754)
Children's Services	36,427	15,727	14,833	(894)
Community Services	27,344	26,951	25,697	(1,254)
<b>Net Capital Programme for Year</b>	<b>98,216</b>	<b>78,661</b>	<b>72,472</b>	<b>(6,189)</b>

Note: ( ) denotes surplus/favourable

The Capital Programme was financed as follows:

	£000
Capital Receipts	18,526
Loans	17,834
Capital Grants & Contributions	31,875
Revenue and other funds	4,237
<b>Total Financing</b>	<b>72,472</b>

The main sources of capital grant funding are: Lottery Grant, Department for Education & Skills, Department for Transport Section 56, Department for Communities and Local Government (DCLG) (including Disabled Facilities grant) and Section 106 developer's contributions. Further details of capital grants received in the year are given in note 31.2 on page 92.

At the end of the year the Council has £18.268m of grant and contributions available for financing the capital programme, including £5.034m of Section 106 and other contributions from developers.

### The Major Capital Projects in 2011/12 were:

Spend in 2011/12 on new assets acquired, or assets under construction at 31 March 2012:

- Estover Community College (Tor Bridge High) replacement school - £6.843m
- Life Centre - £20.960m
- Chelson Meadow works – capping & leachate - £4.039m
- East End Community Transport Scheme - Works at Gdynia Way £7.575m
- Devonport Park £1.322m
- Vehicle and Plant replacement - £1.376m

Spend on improvement or enhancement to existing assets:

- Local Transport Plan schemes - £2.144m

- Schools conditions improvements - £0.521m
- Highway maintenance & essential engineering - £3.391m
- Schools Basic Need programme - £1.097m

#### Other Expenditure

- Disabled Facilities Grants - £1.199m

### Treasury Management Activities

The Council's Treasury Management Strategy for 2011/12 was approved by full Council on 28 February 2011. As an overriding principle, the strategies proposed that in the current financial climate the Council should continue to minimise risk contained within its current debt and investment portfolios by establishing an integrated debt management and investment policy which balanced certainty and security with liquidity and yield. The Council should seek to make greater use of short term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments.

An annual report on the progress of Treasury Management activities against the strategy for the year is required to be presented to full Council and, can be found on our website: <http://www.plymouth.gov.uk/homepage.htm>

### External Borrowing

At the year end, borrowing from external lenders totalled £206.398m, as shown in Table 5. This should be viewed in relation to the value of the Council's operational land and buildings, plant and equipment and investment properties, which have a net book value of £769.247m at the 31 March 2012. The table below shows the absolute cash value of the debt. This differs from the Balance Sheet value which is required to be accounted for using the effective interest rate methodology, which requires interest payments due at the end of the year to be accrued and added to the carrying value of the loan, with the amount charged to revenue being the amount payable in year according to the loan agreement. The financial instruments disclosure note 17 page 57 gives more information on the Council's borrowings, including the equivalent fair value of the loans had these been taken out as at the Balance Sheet date.

Table 5

Type of Debt	Principal O/S £000	Average Rate %
PWLB (Public Works Loan Board)	61,315	5.4001
Market Loans	130,000	4.4202
Bonds	83	1.1668
Temporary Loans	15,000	0.2900
<b>Total Borrowing</b>	<b>206,398</b>	<b>4.4098</b>
PFI	31,017	
Other Finance lease liability	2,585	
Other liabilities	9,408	
<b>Total Debt 31/03/11</b>	<b>249,408</b>	

### Icelandic Bank Update

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 (up to early 2009) and interest rates.

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 Council will be determined by the administrators / receivers. The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

Heritable bank - to date the Council has recovered £2.261m made up of principal of £2.151m and £0.110m of interest representing 71.71% of the agreed claim, leaving a balance outstanding of £0.892m (including interest).

Landsbanki - to date the Council has recovered £1.748m made up of principal of £1.655m and interest of £0.093m representing 41.37% of the agreed claim. The balance outstanding reflected in the Council's accounts is £2.477m (including interest).

Glitnir Bank - to date the Council has recovered £5.033m made up of principal of £4.742m and interest of £0.291m representing 79.03% of the agreed claim.

The Council continues to pursue recovery of the outstanding monies through the Icelandic Courts in partnership with the Local Government Association working on behalf of all Authorities with residual Icelandic Deposits. The cumulative impairment charge for the Icelandic banks outstanding debt was £7.665m, made up of principal of £5.904m and interest £1.761m. This was charged to the Council's revenue account in 2009/10 and funded from the approved Capitalisation Direction and reserve transfer.

The impairment charge was 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 Council until monies are recovered. Following continued uncertainty over the recovery of deposits this impairment was not changed in the 2010/11 accounts.

The Council has reduced this impairment by £1.285m in 2011/12 in line with recoveries made up to the date of publishing these draft accounts. The calculation of the impairment by the Council differs from the guidance issued by CIPFA under LAAP 82 (as updated May 2012) which, recommends the recoveries for Heritable, Landsbanki and Glitnir based on assumed collection rates of 86%, 100% and 100% respectively. The Council has used a prudent approach in calculating the impairment adjustment due to the continued uncertainty over the level of future recovery. If the Council had applied the LAAP guidance the impairment adjustment would have been a reduction (to the impairment) of £4.751m, compared to the actual impairment adjustment made of £1.285m, a difference of £3.467m. The impairment will continue to be reduced as and when further recoveries are made.

#### Repayments made since June 2012

Repayments totalling £0.080m relating to the outstanding Icelandic Bank Debt have been received since the draft accounts were prepared in June. There have been no adjustments to the financial statements for these receipts which will be accounted for in 2012/13.

### **Pension Liabilities**

Plymouth City Council employees are eligible to join the Local Government Pension Scheme (LGPS) which is managed by Devon County Council on behalf of the Devon Authorities. The accounting requirements of International Accounting Standard (IAS) 19 have resulted in a pension liability of £336.135m being reflected in the Council's Balance Sheet. This represents Plymouth City Council's liability to the Local Government Pension Scheme (LGPS). In addition, the Council discloses a long-term creditor of £16.438m on the Balance Sheet. This represents its share of Devon County Council's ongoing liability to pay enhanced pension costs that existed at the time of Local Government Reorganisation in 1998.

These amounts are matched by a pensions reserve and therefore have no impact on the Council's revenue balances. The pensions liability as at 31 March 2012 has increased following the actuaries review of the position.

The negative balance that arises on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

The level of contributions required to be made by the Council into the fund are set by independent actuaries. The contribution levels are reviewed every three years following a triennial review of the fund by the actuaries. The current contribution rate is based on 19.4% of pensionable salary costs for those employees in the Devon pension scheme and this will remain until 2014 when the next full actuarial is undertaken.

Further details about pension liabilities can be found in note 35 page 98.

## **Partnership Arrangements**

### Local Strategic Partnership (LSP)

The Partnership has continued to work on the four main priorities for the city: Growth, Inequality, Aspiration and Value for Communities. There is an agreed set of indicators to measure progress against the four priorities.

The Partnership has established an integrated planning process with main partners which has aligned planning and budget cycles to provide a more effective and efficient means of addressing the agreed priorities for the city. This has been evidenced by the inclusion of senior staff of partner organisations at the Council's budget scrutiny meetings for 2012/13.

The Health and Wellbeing group of the LSP was set up mid 2011/12 to bring forward joint commissioning of local services to improve the health and wellbeing of service users. Previously services were provided in relative isolation by health and local authority services, and the change has resulted in a significant increase in joint commissioning reflected in additional agency services to the value of £14m undertaken by the Council on behalf of Health.

### Heart of the South West Local Enterprise Partnership (HotSWLEP)

During 2011/12 Plymouth City Council acted as the Accountable Body for the Growing Places Fund (GPF) on behalf of the Heart of the Southwest Local Enterprise Partnership (HotSWLEP). The GPF, allocated by the Department for Communities and Local Government (DCLG), will be used by the HotSWLEP to invest in key items of infrastructure to enable development. The money invested in projects may be required to be returned to the LEP for re-investment in further infrastructure projects.

The funds, totalling £21.5m, were received by PCC during February 2012 and it will be the HotSWLEP who will have responsibility for allocating the funding to specific projects that fit the funding criteria. The projects will be monitored and assessed by the HotSWLEP with the Accountable Body ensuring that the funding is being used on capital projects only.

The Council ceased to be the Accountable Body for the Growing Places Fund in August 2012, with this responsibility being transferred to Devon County Council with both parties' agreement. This change only affects the administration of the LEP and the Council continues to be fully committed to the initiative in all other aspects. Further details are provided in the Material Events after the Balance Sheet date section below and in Note 7 on page 47.

### Highways Maintenance

The Council entered into a contract with Amey in December 2008 to manage the Council's Local Transport Plan (LTP) revenue works, including maintenance, pre-planned and ad hoc works on highways, footpaths, gritting, walls etc. Amey also undertake design works and delivery of an element of the Council's capital Local Transport Plan programme.

The contract is for a period of 7 years, extendable by a further 3 years, with an estimated total value of approximately £150m.

## **Material Events after the Balance Sheet date**

### Heart of the South West Local Enterprise Partnership (HotSWLEP)

On 4 August 2012, Devon County Council agreed to take over the accountable body responsibility for this fund. As a result, Plymouth transferred the £21m on 6 August 2012 to Devon County Council. This was due to the fact the DCC has a greater capacity to undertake this role with regard to the evolving nature of the fund. A post balance sheet event to this effect has been added at Note 7 on page 47.

## **Financial Position of the Council**

At 31 March 2012 the Council's Working Balance stood at £11.301m or 5.5% of the net revenue budget for 2011/12.

In addition to the Working Balance, the Council has a number of earmarked reserves, set up specifically to meet the costs of future spending plans or known budget pressures. At 31 March 2012, the total earmarked reserves were £26.437m, including £5.721m held on behalf of education/schools. The more significant reserves, in addition to the schools reserves, are:

	£000
Redundancy Reserve	2,625
Waste Reserve	1,600
Accommodation Reserve	1,374
Pensions Reserve	1,088
Invest to Save	1,300
Budget carry forwards/Policy initiatives	1,221
Insurance & Risk Management Reserve	1,184
Tamar Bridge & Torpoint Ferry	1,495

Further details of the Council's reserves are included in note 22 page 69.

The Council also has a number of budget provisions set up to meet known liabilities. The main provisions include the insurance fund, and back dated equal pay claims. Provisions held at 31 March 2012 totalled £10.687m. With the exception of the back dated pay award claims arising since 1 April 2008, where the Council has taken advantage of a statutory regulation to defer the impact on its revenue budget until the claims are settled, all monies held in provisions have already been charged to the Council's revenue budget.

Further details of provisions note 21 page 68.

## **Contingent Assets & Liabilities**

The Council has disclosed a number of contingent assets and liabilities in the notes to the accounts. Contingent assets identify potential income that the Council may recover either as a result of legal action or reimbursement of overpayments. The Council has declared contingent assets relating to a tax rebate on landfill liability, together with a potential airport receipt, however the timing and quantum of any such receipts is uncertain and is subject to a review of strategic planning policies applicable to the site.

This income is not currently included within the Council's 31 March 2012 financial position as it is not certain that it will be forthcoming.

Contingent liabilities represent areas that may result in a financial liability to the Council but which cannot be quantified with any certainty both in terms of timing and amounts and therefore have not yet been charged to the accounts. These are kept under continual review with the contingent liabilities forming part of the Council's strategic risk register and are regularly reported to Audit Committee.

The main contingent liabilities are:

- PLUSS Organisation Ltd - the Council has guaranteed payments into the pensions fund for transferred employees, has also provided a loan of £0.235m and jointly agreed a bank overdraft facility with Torbay and Devon County Councils.
- Single status equal pay claims - the Council has a number of claims currently subject to a tribunal hearing. However depending on the ruling of the tribunal, it is possible that further claims may be submitted. There have also been a number of equal pay claims following the transfer of staff to a new leisure services operator.
- Civic centre - a contingent liability has been disclosed whilst the future of the building remains to be determined.
- Connexions (Careers South West) - the Council has guaranteed to meet an element of pension liabilities should the organisation be wound up.
- Plymouth Community Homes (PCH) - as part of the housing stock transfer the Council was required to provide a number of warranties to the funders of PCH.

- Contaminated land - the Council is required to identify potentially contaminated land and may be required to implement remediation works.
- Treasury Management - potential investment losses.
- Eastern Corridor Integrated Transport Scheme - legal action/claim resulting from delays incurred in the Gdynia way transport scheme
- Redundancy payments - with regards to reducing the size of the organisation.
- Personal Search Fees - Legal claim disputing whether the Council can charge companies.

Further details of the Council's contingent assets and liabilities are given in note 36 page 105.

Regular reviews of the Council's financial health, in particular a review of reserves and provisions are undertaken during the year.

### **Looking Forward to the Medium Term**

The Council is facing a series of challenging issues into the medium term. The grant budget reductions announced as part of the Comprehensive Spending Review (CSR) and the resulting reduction in grants under the 2011/12 Local Government Settlement will require the Council to have robust plans if it is to continue to improve.

In response to this, the Corporate Management Team, working with the Council's Cabinet members, is continuing to develop a transformational change programme that will fundamentally challenge the organisation's culture, structure and approach to service delivery. The budget plans submitted as part of the 2011/12 budget setting process included budget delivery plan savings of over £30m to be delivered over the next three years.

A return to quarterly reporting of joint finance and performance information has proved successful during 2011/12. The formal joint reports will continue to be supplemented by monthly scorecards to Corporate and Departmental Management teams, demonstrating progress against budget and delivery plans. The emphasis needs to be one of looking forward: updating the Medium Term Financial Forecast (MTFF) regularly as things change is essential if the Council is able to proactively plan for the future.

Although the Comprehensive Spending period covered a period of 4 years, the Local Government Finance Settlement gave resource allocations for a 2 year period only. The Government announced plans to undertake a Local Government Resource Review and a number of consultation documents and technical papers have been issued over the last few months. The review centres around Council's retaining locally raised business rate income. The proposals will be closely monitored and implications for the Council's finances reported to Cabinet as part of the quarterly reporting process.



## CONCLUDING REMARKS

The Council's Director for Corporate Services, as the Council's Section 151 Officer, was required to sign the Accounts by a statutory deadline of 30 June.

Formal audit of the accounts for 2011/12 commenced on 2 July 2012. The accounts and all books, deeds, contracts, bills, vouchers and receipts relating to them were available for inspection by any person interested at the Finance Department, Civic Centre, Plymouth, Mondays to Fridays, between 8.30am and 5pm, from 2 July to 27 July inclusive.

Under the sections 15 and 16 of the Audit Commission Act 1998 and Regulations 9, 10 and 21 of the Accounts and Audit (England) Regulations 2011:

- (a) Any person interested may inspect and make copies of the accounts and books etc. to be audited.
- (b) A local government elector for the area may question the auditor about the accounts and object to any items of unlawful expenditure, loss due to wilful default, failure to bring a sum of income into account, or any other matter of public interest. Persons wishing to question the auditor should do so by prior arrangements by contacting 0117 305 7600.
- (c) If any elector intends to object they must give the auditor prior written notice of any objection and its grounds and send a copy of the notice to the City Council.

The auditor has confirmed that no objections were received.

The Accounts have subsequently been updated following the results of the audit and re- approved by the Director for Corporate Services. The final audited Accounts are required to be approved by Audit Committee and published by 30 September 2012.

Further information is available on the Council's website:

[www.plymouth.gov.uk/homepage/Councilanddemocracy/accounts.htm](http://www.plymouth.gov.uk/homepage/Councilanddemocracy/accounts.htm)

or from Chris Randall, Strategic Finance Manager, Civic Centre, Plymouth, PL1 2AA. Telephone: (01752) 304599. Email: [corporateaccountancy@plymouth.gov.uk](mailto:corporateaccountancy@plymouth.gov.uk)

The Council's statutory responsibilities regarding these Accounts are laid out in the section entitled 'Statement of Responsibilities for the Statement of Accounts' on page 17.



A Broome  
Director for Corporate Services  
Civic Centre  
PLYMOUTH  
PL1 2AA

Dated: 18 September 2012

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director for Corporate Services.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

### **The Director for Corporate Services' responsibilities:**

The Director for Corporate Services is responsible for the preparation of the Authority's Statement of Accounts which is in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (The Code).

In preparing this statement of accounts, the Director for Corporate Services has:

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent
- complied with the Local Authority Code

The Director for Corporate Services has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities

In signing these accounts, the Director for Corporate Services confirms that these statements give a 'true and fair' view of the financial position of the Authority at 31 March 2012 and of its expenditure and income for the year ended 31 March 2012.

A Broome  
Director for Corporate Services

Dated: 27 September 2012

### **APPROVAL OF STATEMENT OF ACCOUNTS BY AUDIT COMMITTEE**

The Council is required to approve the Statement of Accounts. The 2011/12 Statement was approved by the Councils Audit Committee on 27 September 2012 following conclusion of the audit and was signed on its behalf by the Member presiding over the meeting on 27 September 2012.

Cllr G Wheeler  
Dated: 27 September 2012

## MOVEMENT IN RESERVES STATEMENT FOR THE YEARS ENDED 31 MARCH 2011 AND 2012

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserve s	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Restated Balance at 1 April 2010</b>		<b>11,518</b>	<b>28,985</b>	<b>1,792</b>	<b>21,359</b>	<b>20,222</b>	<b>83,876</b>	<b>164,402</b>	<b>248,278</b>
<b>Movement in Reserves during 2010/11</b>									
Surplus or (deficit) on provision of services		(73,822)	0	0	0	0	(73,822)	0	(73,822)
Other Comprehensive Expenditure and Income		0	0	0	0	0	0	161,219	161,219
<b>Total Comprehensive Expenditure and Income</b>		<b>(73,822)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(73,822)</b>	<b>161,219</b>	<b>87,397</b>
Adjustments between accounting basis & funding under regulations	8	77,481	0	0	931	(6,451)	71,961	(71,961)	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>3,659</b>	<b>0</b>	<b>0</b>	<b>931</b>	<b>(6,451)</b>	<b>(1,861)</b>	<b>89,258</b>	<b>87,397</b>
Transfers to/from earmarked reserves	22	(3,764)	5,191	(1,792)	200	0	(165)	166	1
<b>Increase/Decrease in year</b>		<b>(105)</b>	<b>5,191</b>	<b>(1,792)</b>	<b>1,131</b>	<b>(6,451)</b>	<b>(2,026)</b>	<b>89,424</b>	<b>87,398</b>
<b>Restated Balance at 31 March 2011</b>		<b>11,413</b>	<b>34,176</b>	<b>0</b>	<b>22,490</b>	<b>13,771</b>	<b>81,850</b>	<b>253,826</b>	<b>335,676</b>
<b>Movement in Reserves during 2011/12</b>									
Surplus or (deficit) on provision of services		(22,502)	0	0	0	0	(22,502)	0	(22,502)
Other Comprehensive Expenditure and Income		0	0	0	0	0	0	(106,248)	(106,248)
<b>Total Comprehensive Expenditure and Income</b>		<b>(22,502)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(22,502)</b>	<b>(106,248)</b>	<b>(128,750)</b>
Adjustments between accounting basis & funding under regulations	8	14,773	0	0	(13,314)	(1,378)	81	(81)	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>(7,729)</b>	<b>0</b>	<b>0</b>	<b>(13,314)</b>	<b>(1,378)</b>	<b>(22,421)</b>	<b>(106,329)</b>	<b>(128,750)</b>
Transfers to/from earmarked reserves	22	7,617	(7,739)	0	113	0	(9)	11	2
<b>Increase/Decrease in year</b>		<b>(112)</b>	<b>(7,739)</b>	<b>0</b>	<b>(13,201)</b>	<b>(1,378)</b>	<b>(22,430)</b>	<b>(106,318)</b>	<b>(128,748)</b>
<b>Balance at 31 March 2012</b>		<b>11,301</b>	<b>26,437</b>	<b>0</b>	<b>9,289</b>	<b>12,393</b>	<b>59,420</b>	<b>147,508</b>	<b>206,928</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT AT 31 MARCH 2012

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Restated 2010/11 Gross Expenditure £000	Restated 2010/11 Gross Income £000	Restated 2010/11 Net Expenditure £000		Note	2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
93,735	(20,005)	73,730	Adult Social Care	2	100,103	(29,133)	70,970
5,927	(790)	5,137	Corporate & Democratic Core		6,381	(63)	6,318
28,578	(23,688)	4,890	Central Services		29,466	(23,856)	5,610
30,074	(7,168)	22,906	Cultural & Related Services		29,429	(4,757)	24,672
414,362	(220,293)	194,069	Children's & Educational Services		231,772	(154,789)	76,983
40,938	(9,518)	31,420	Environmental & Regulatory Services		33,247	(7,548)	25,699
107,236	(94,468)	12,768	Housing Services*		113,588	(101,547)	12,041
35,252	(16,755)	18,497	Highways & Transport Services		38,535	(15,535)	23,000
3,534	(92,723)	(89,189)	Non Distributed Costs	6	(956)	(7,647)	(8,603)
12,884	(6,418)	6,466	Planning Services		13,527	(5,302)	8,225
<b>772,520</b>	<b>(491,826)</b>	<b>280,694</b>	<b>Surplus/Deficit on Continuing Operations</b>		<b>595,092</b>	<b>(350,177)</b>	<b>244,915</b>
26,265	(1,437)	24,828	Gain or Loss on Disposal of Fixed Assets	12.5	2,642	(513)	2,129
114	(2,029)	(1,915)	Other Operating Expenditure	9	160	(4,053)	(3,893)
64,355	(32,999)	31,356	Financing and Investment Income and Expenditure	10	63,741	(42,403)	21,338
0	(261,141)	(261,141)	Taxation and Non-Specific Grant Income	11	0	(241,987)	(241,987)
		<b>73,822</b>	<b>Surplus or Deficit on Provision of Services</b>				<b>22,502</b>
		(4,921)	Surplus or deficit on revaluation of fixed assets	22.4			(12,321)
		(156,298)	Actuarial gains / losses on pension assets / liabilities	35			118,569
		<b>(161,219)</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>106,248</b>
		<b>(87,397)</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>128,750</b>

\* The figure for 2010/11 include minor balances in relation to the full year of the Housing Revenue Account when closed on 31 March 2011.

## BALANCE SHEET AT 31 MARCH 2012

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Restated 01 April 2010 £000	Restated 31 March 2011 £000		Note	31 March 2012 £000
804,048	675,526	Property Plant and Equipment	12	692,307
19,180	19,180	Heritage Assets	13	19,410
87,296	78,025	Investment Property	14	76,940
1,783	1,583	Intangible Assets	15	2,074
30,588	11,920	Long Term Investments	17.2	1,558
1,335	731	Long Term Debtors	18.1	1,091
<b>944,230</b>	<b>786,965</b>	<b>Non current Assets</b>		<b>793,380</b>
46,288	61,122	Short Term Investments	17.2	27,987
609	909	Inventories		901
48,201	35,411	Short Term Debtors	18.2	33,451
78,932	93,832	Cash and Cash Equivalents	23.4	53,125
2,510	3,057	Assets Held for Sale	19	3,843
0	875	LATS allowances		640
<b>176,540</b>	<b>195,206</b>	<b>Current Assets</b>		<b>119,947</b>
(76,918)	(96,952)	Short Term Borrowing	17.2	(17,847)
(72,955)	(62,281)	Short Term Creditors	20.1	(88,833)
(1,624)	(2,907)	Short Term Provisions	21	(2,878)
<b>(151,497)</b>	<b>(162,140)</b>	<b>Current Liabilities</b>		<b>(109,558)</b>
(20,661)	(18,757)	Long Term Creditors	20.2	(16,785)
(9,146)	(7,879)	Long Term Provisions	21	(7,808)
(160,348)	(193,991)	Long Term Borrowing	17.2	(193,912)
(452,310)	(220,219)	Long Term Liabilities Pensions	35	(336,135)
(78,530)	(43,509)	Long Term Liabilities Other	20.3	(42,201)
<b>(720,995)</b>	<b>(484,355)</b>	<b>Long Term Liabilities</b>		<b>(596,840)</b>
<b>248,278</b>	<b>335,676</b>	<b>Net Assets</b>		<b>206,928</b>
83,876	81,850	Usable Reserves	22.1	59,420
164,402	253,826	Unusable Reserves	22.1	147,508
<b>248,278</b>	<b>335,676</b>	<b>Total Reserves</b>		<b>206,928</b>

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

Restated 2010/11 £000			2011/12 £000
		Note	
(73,822)	Net Surplus or (Deficit) on the Provision of Services		(22,502)
498,605	Adjustment to Net Surplus or (Deficit) on the Provision of the Services for Non Cash Movement	23.1	234,030
(415,395)	Adjustment for Items included in the net (Surplus) of Deficit on the provision of services that are investing and Financing Activities	23.1	(172,694)
<b>9,388</b>	<b>Net Cash Flow from Operating Activities</b>		<b>38,834</b>
(19,822)	Investing Activities	23.2	2,155
25,334	Financing Activities	23.4	(81,696)
<b>14,900</b>	<b>Net Increase or (Decrease) in Cash and Cash Equivalents</b>		<b>(40,707)</b>
78,932	Cash and Cash Equivalents at the beginning of the Reporting Period	23.4	93,832
<b>93,832</b>	<b>Cash and Cash Equivalents at the end of the Reporting Period</b>	23.4	<b>53,125</b>

# NOTES TO THE FINANCIAL STATEMENTS

## INDEX

1. Accounting Policies	23
2. 2010/11 Restatements	40
3. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted	45
4. Critical Judgements in Applying Accounting Policies	45
5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	45
6. Material Items of Income and Expense	47
7. Events after the Balance Sheet Date	47
8. Adjustments between Accounting Basis and Funding Basis under Regulations	48
9. Other Operating Expenditure	50
10. Financing and Investment Income and Expenditure	50
11. Taxation and Non Specific Grant Income	50
12. Property, Plant and Equipment	51
13. Heritage Assets	54
14. Investment Properties	55
15. Intangible Assets	56
16. Capital Expenditure and Capital Financing	56
17. Financial Instruments	57
18. Debtors	65
19. Assets Held for Sale	66
20. Creditors	67
21. Provisions	68
22. Reserves	69
23. Cash Flow Disclosures	76
24. Amounts reported for resources allocation decisions	79
25. Trading Operations	83
26. Agency Services	84
27. Pooled Budgets	84
28. Members' Allowances	85
29. Officers' Remuneration	86
30. External Audit Costs	89
31. Government Grants	89
32. Related Party Transactions and Partnerships	93
33. Leases	95
34. Private Finance Initiatives and Similar Contracts	97
35. Pensions	98
36. Contingent Liabilities / Assets	105
37. Trust Funds and Special Balances	108

## **I. Accounting Policies**

### **I.1. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 (Part 3), which require the accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (The Code) and the Service Reporting Code of Practice 2011/12 (SeRCOP)), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### **I.2. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

#### Customer and Client Receipts

Customer and client receipts in the form of sales, fees, charges and rents are accounted for as income at the date the Council provides the relevant goods or services. A recommended de-minimus of £500 is applied at the year-end for goods and services the Council has provided but for which payment has not yet been received.

#### Supplies and Services

The cost of supplies and services are recorded as expenditure when they are consumed or received. Accruals are made for all material sums unpaid at the year-end for goods or services received or works completed. However, certain quarterly payments (e.g. gas, electricity, telephones) are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

A de-minimus of £500 is generally applied for all accruals unless they are automatically accrued via the Financial System, Civica Authority Financials, where there is no de-minimus value.

Where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.

#### Works

Works for external organisations are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet. Internal departments are charged for works in progress at year end.

#### Benefit Payments

Benefit payments are accounted for as they are incurred with no accrual being made for payments in advance or arrears at the year-end. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

#### Interest

Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by contract.

### **I.3. Cash and Cash Equivalents**

The Council defines the following deposits as cash and cash equivalents:

Cash:

- Cash in hand



- On demand call accounts
- Money Market Funds

Cash equivalents:

- Notice accounts of 30 day duration or less
- Fixed term deposits of less than 1 month
- Deposits with the Government Debt Management Office (DMO) for a period of less than 1 month

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

#### **1.4. Exceptional (Material) Items**

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

#### **1.5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

#### **1.6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision (MRP) contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **1.7. Employee Benefits**

##### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave, flexi and time off in lieu (toil) as well as bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. toil, flexi) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the

benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

No accrual is generally made for employee costs paid monthly in arrears, such as overtime and car allowances. This is in line with practice adopted in previous years.

#### Termination Benefits (e.g. Redundancy Payments)

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the surplus/deficit on continuing services in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### Post Employment Benefits (Pensions)

Employees of the Council are members of two separate pension schemes:

- The Teachers Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DFE);
- The Local Government Pensions Scheme, administered by Devon County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council.

#### Teachers Pension Scheme

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the authority. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

However, the Council is able to supplement teachers' statutory retirement benefits with locally determined decisions (discretionary payments). The future liability for such decisions is a true cost to the Council and is assessed annually by the Actuary and included within the total pension liability on the Balance Sheet.

#### Local Government Pension Scheme

All Council employees (with the exception of teachers) are eligible to join the Local Government Pension Scheme. The Local Government Scheme is accounted for as a defined benefits scheme.

The liabilities of the Devon Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of future earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 4.6%.

The assets of the Devon Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year- allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase (or decrease) in liabilities arising from current year decisions whose effect relates to years of services earned in earlier years- debited (or credited) to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid- debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return- credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited or credited to the Pensions Reserve;
- contributions paid to the Devon Pension Fund – cash paid as employers' contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement of Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with the debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

#### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers as outlined above, are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **1.8. Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## **I.9. Financial Instruments**

### Financial liabilities

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument.

### Loans/Borrowings

The Council's loans are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of the repurchase or settlement. However, where repurchase has taken place as part of a restructuring of a loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, Regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or the discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account (FIAA) in the Movement in Reserves Statement.

### Trade Creditors

Where expenditure has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the Balance Sheet. Trade creditors fall within the definition of a financial instrument and are required to be measured using the effective interest rate method, unless they are of 'short duration with no stated interest rate' in which case they may be measured at original invoice value. The Council defines short duration as a period of up to one year and therefore, trade creditors included within the current liabilities section of the Balance Sheet are measured at original invoice value.

### Financial Assets

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market. They are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

### Investments

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for the interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans (Investments) that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement receivable for the year in the loan agreement.

### Soft Loans

The Council has made a small number of loans to other parties at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest foregone over the life of the instrument

resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure Line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from these bodies, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable in the financial year. The reconciliation of amounts debited or credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the FIAA in the Movement in Reserves Statement.

#### Car Loans

The Council has made a number of car loans to staff at preferential interest rates. These are carried at cash value and not adjusted to amortised cost.

#### Short Term Trade Debtors

Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the Balance Sheet. Trade debtors fall within the definition of a financial instrument and are required to be measured using the effective interest rate method, unless they are of 'short duration with no stated interest rate' in which case they may be measured at original invoice value. Debtors included within the current assets section of the Balance Sheet are therefore measured at original invoice value, less a provision for uncollectability of debt.

#### Long Term Debtors

The Council may provide financial assistance to individuals or organisations in the form of a loan, including for example the granting of mortgages to individuals to purchase their Council Houses under the Right to Buy (RTB) Legislation. Where the repayment period exceeds one year these are classified as Long Term Debtors on the Balance Sheet.

This debt is required to be reflected on the Balance Sheet at amortised cost and interest charged to the Income and Expenditure Account based on the effective interest rate method.

An element of Social Care debt is recovered by means of a charge on the client's property. This debt may not be recovered in the next financial year and is therefore included within long term debtors. This debt is not subject to an interest charge.

#### Impairment

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service, for receivables specific to that service, or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

#### Financial Guarantees entered into before 1 April 2006

The Council entered into a financial guarantee arrangement with PLUS before 1 April 2006 which is not required to be accounted for as a financial instrument. The Council does not therefore recognise the guarantee to PLUS in its Balance Sheet, but continues to disclose the guarantee as a contingent liability.

### **1.10. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions (including Section 106 and 278 Developer contributions) and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset

acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where Revenue grants that have been credited to the Comprehensive Income and Expenditure Statement are intended to meet specific service expenditure that has not yet been incurred, an equivalent amount is transferred from the General Fund Balance to an Earmarked Reserve in the Statement of Movement in Reserves. A transfer back is made in future years to match expenditure as it is incurred.

Capital grants are posted to the Taxation and Non-Specific Grant Income section of the Comprehensive Income and Expenditure Account, unless they are used to finance Revenue Expenditure Financed from Capital under Statute (REFCUS) spend in which case they are posted to the relevant service line. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Grants paid to the Council as the accountable body are only recognised to the extent that they are used towards Council expenditure.

### **1.11. Agency Services**

#### Business Improvement District (BID)

The Council acts as an agent for Plymouth City Centre Company. The Council does not recognise income and expenditure relating to the Company in its accounts.

#### Plymouth Primary Care Trust

The Council carries out certain work on an agency basis on behalf of the Plymouth Primary Care Trust and strategic partners. The Council does not recognise income and expenditure in respect of these activities within its accounts. The Council does receive an administration fee which is included within surplus/deficit on continuing services (Adult Social Care).

#### Council Tax

The Council, as billing authority for Council Tax, acts as an agent on behalf of the Devon & Cornwall Police and Devon & Somerset Fire Authorities. The Council includes a debtor or creditor in its Balance Sheet for deficits/surpluses on the Collection Fund attributable to the two precepting authorities at year end.

#### NNDR

The Council acts as an agent of the Government when collecting NNDR. The Council recognises a creditor or debtor for cash collected from NNDR debtors as an agent for the Government, but not yet paid (or overpaid) to the Government at the Balance Sheet date.

### **1.12. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council as a result of past events is capitalised when it will bring benefits to the Council for more than one financial year. The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets also include purchased licenses. Intangible assets on the Council's Balance Sheet relate to the purchase of software licences.

Internally developed intangible assets such as the development and implementation of computer systems and development of the Council's website are not capitalised but are written down to the relevant service line(s) and reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the

Capital Adjustment Account under the provisions for Revenue Expenditure Funded from Capital Under Statute.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the authority. The useful life assigned to the major software suites used by the authority is 5 years. The depreciable amount of an intangible asset is amortised on a straight line basis over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds greater than £10,000, the Capital Receipts Reserve.

### **1.13. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other Partners that involve the use of the assets and resources of the Partners rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls, if any, and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other Partners, with the assets being used to obtain benefits for the Partners. The joint operation does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint operation and income that it earns.

The Authority's interest in the Tamar Bridge & Torpoint Ferry Joint Committee has been reclassified as a Jointly Controlled Operation.

It was previously treated as a Jointly Controlled entity and represented a material interest for the Authority and required the Authority to prepare Group Accounts. Note 2 page 40 details the accounting treatment and restatement amounts.

Mount Edgcumbe Country Park is a jointly controlled asset with Cornwall Council. The management of the Park is overseen by the Mount Edgcumbe Joint Committee.

### **1.14. Interests in Companies and Other Entities**

In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

As a result of bringing the Tamar Bridge & Torpoint Ferry Joint Committee balances into the Authority's single entity accounts (note 2 page 40), the remaining interests of the Authority in other entities, subsidiaries, Associates or Joint Ventures, are not considered sufficiently material to require it to prepare Group Accounts.

### **1.15. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. These gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds greater than £10,000, the Capital Receipts Reserve.

### **1.16 Heritage Assets**

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

Heritage assets are deemed to have an indefinite life, therefore are not depreciated as the charge made would be minimal and immaterial. However, where there is evidence of physical deterioration to a heritage asset or doubts arise to its authenticity the value of the asset has to be reviewed. However, revaluation gains & losses and impairment losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. These gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Where the authority has information on the cost or value of heritage assets, or where assets have been previously capitalised or are recently purchased, information on their cost or value will be recognised and be available for inclusion within the financial statements. Where this information is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements, the assets will not be recognised.

### **1.17. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **The Authority as Lessee (Leased in assets)**

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor, although in practice many of the Council's property finance leases are held on a long lease at peppercorn rental and there is therefore no matching liability on the Balance Sheet. Initial direct costs to the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are



applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Finance lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life and where ownership of the asset does not transfer to the authority at the end of the lease period.

The Authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds as part of the MRP provision towards the deemed capital investment in accordance with statutory requirements.

Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Leases entered into before 1 April 2004 that were not classified as credit arrangements under the pre-Prudential Framework regime continue to be financed as revenue transactions, even if they are finance leases under IAS 17. This means that Property Plant and Equipment and liabilities are recognised and depreciation charged in accordance with the Code, but that the bottom-line charge against the General Fund Balance needs to reconcile to the rentals payable for the year. This entails the finance costs being charged to the Comprehensive Income and Expenditure Statement and the principal part being debited as an appropriation from the General Fund Working Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Schools may make their own arrangements for operating leases using income from their schools budget share. These are included within total lease payments.

### **The Authority as Lessor (Council Assets leased out)**

#### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet, whether Property, Plant and Equipment or Assets Held for Sale, is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet. In reality the majority of the Council's finance leases are in return for a one off premium and peppercorn rental and there is no matching long term debtor on the Balance Sheet.

Any gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Surplus/deficit on continuing services in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease.

### **1.18. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The full cost of overheads and support services are recharged to services on the basis of time allocations or other appropriate measures of resources used with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### **1.19. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. The Council operates a capitalisation de-minimis level of £10,000 for land and property and £5,000 for vehicle, plant and equipment. Spend below these levels is charged direct to revenue. However, there is no de-minimis for capital spend by individual schools financed from capital grants. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance, i.e. it will not lead to a variation in the cash flows of the Authority.

Donated assets are subject to a de-minimis value of £10,000 for land and property and £5,000 for all other assets. Assets with a value in excess of the de-minimis are capitalised and carried on the Council's Balance Sheet measured initially at fair value. The difference between fair value and any consideration paid for assets is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and

Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement. Many of the Council's donated assets are held within the museum and art gallery.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Schools are valued using DRC adjusted for a modern equivalent asset valuation. Donated assets held at the museum and art gallery may be carried on the Balance Sheet at Insurance valuation applicable at the time of recognition rather than as individual assets.

Assets that local authorities intend to hold in perpetuity and have no determinable useful life and may have restrictions in their disposal are classified as community assets, and in this instance are generally valued at a nominal £1.

For non-property assets that have short useful lives or low values (or both) depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains that arise from the reversal of a loss previously charged to a service are credited to the Comprehensive Income and Expenditure Statement.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, subject to a limit on the amount of the accumulated gains;
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

#### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance subject to a limit on the amount of the accumulated gains.
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

#### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets. An exception is made for assets without a determinable finite useful life such as freehold land and certain Community Assets, and assets that are not yet available for use (i.e. assets under construction). Depreciation is calculated on a straight line basis over the useful life of the asset as determined by the valuer. Depreciation is charged to the Comprehensive Income and Expenditure Statement based on values as at the start of the year. No depreciation is applied in year of acquisition or construction. The depreciation periods currently used are:

##### Operational Buildings

Car parks	10 to 15 years
Schools	10 to 40 years
PFI schools	60 years
Administrative buildings	5 to 35 years
Libraries	10 to 60 years
Museums	20 to 60 years
Other buildings	5 to 60 years
Infrastructure	20 to 40 years
Vehicles and Plant	5 to 20 years
Community Assets	0 to 30 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

The Council's componentisation policy is as follows:

- Materiality Level  
Assets with a building value of £2.5m or above are considered for componentisation on an individual asset basis.  
-Consideration is also given to groups of similar assets that individually are below the materiality level for componentisation but may collectively be material.
- Significance  
Components with a value of 20% or above of the overall asset value are significant components. In terms of schools, components are defined as separate school blocks or buildings and componentisation applied where the values meet the 20% criteria.
- Different Asset Life  
The difference in life between the host asset and the component must be over 5 years for componentisation to be recorded.

Plant and equipment acquired as part of the construction or refurbishment of an asset is separately classified on the Balance Sheet at source and depreciated over asset life accordingly.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, and the asset is being actively marketed, it is reclassified

as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the loss (gain) on disposal of fixed assets line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are no longer used for operational purposes but are not actively being marketed are revalued and reclassified as surplus but still retained within property plant and equipment and transferred to Assets Held for Sale only when a decision is made to actively market the asset.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the loss (gain) on disposal of fixed assets line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are required to be credited to the Capital Receipts Reserve. Capital receipts can then only be used for:

- new capital investment;
- set aside to reduce the Authority's underlying need to borrow (the capital financing requirement).

Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **1.20. Inventories and Long Term Contracts**

Inventories (Stocks and Work In Progress) are shown in the Accounts at cost (less any foreseeable losses on Work In Progress). This is a departure from the Code, which states that stock should be included at the lower of cost and net realisable value, and is permitted since the valuation basis would not materially affect the Council's reported position. The total value of stocks in the Council's Balance Sheet is £0.901m compared to total current assets of £119.947m (0.75%).

Since stockholdings are reviewed on a continuous and rotational basis no provision has been made for obsolete stock or slow moving items.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year. The Council has a long term contract with Amey to manage the Council's Local Transport Plan (LTP) revenue works, including maintenance, pre-planned and ad hoc works on highways, footpaths, gritting, walls etc. Amey also undertakes design works and delivery of an element of the Council's capital Local Transport Plan programme.

## **1.21. Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the

Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Council has one PFI, the education contract to provide schools and related assets at Wood View Campus and primary school at Riverside, Barne Barton.

The original recognition of these assets based on the cost to construct or purchase the property, plant and equipment is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Council's PFI scheme the liability has been written down by capital contributions of £4.6m made over the period 2008 to 2011.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards finance liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment when the relevant works are carried out, and capital criteria are met.

#### PFI credits

The Council receives a grant towards the cost of the PFI scheme. The grant is allocated to meet the finance costs in the first instance. The amount required to meet the finance lease liability, interest and contingent rent charge is allocated to the Taxation and Non Specific grant income in Comprehensive Income and Expenditure Statement. The remaining grant is treated as a specific grant and included within the Children's and Education service line.

Government grants received for PFI schemes, in excess of current levels of net expenditure, are carried forward as an earmarked reserve to fund future contract expenditure.

## **1.22. Provisions, Contingent Liabilities and Contingent Assets**

### Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, usually a cash payment, or service potential, and a reliable estimate of the amount of the obligation can be made, but where the timing of the transfer is uncertain.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Movements in provisions during the year are shown in Note 21 to the Core Statements on page 68.

#### Provision for Back Pay Arising from Equal Pay Claims

The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy. The Council successfully applied for a Capitalisation Direction for payments and estimated costs from claims submitted in 2007/08. An annual charge to repay the borrowing is made to the Movement in General Fund Balance as part of the MRP provision.

Statutory arrangements allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established. Therefore for claims submitted after 1 April 2008, the provision is balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund Balance in the year the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund Balance in the Movement in Reserves Statement in future financial years as payments are made.

#### Landfill Allowance Schemes

Landfill allowances, whether allocated by Department for Environment, Food & Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets, or a long term debtor if purchased for more than one year in advance of expected use, and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value. Any surplus or deficit for the year is credited or debited to the appropriate service line in the Comprehensive Income and Expenditure Statement, as is any reduction or increase in value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

#### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

#### Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Details of the Council's contingent liabilities and assets are outlined in Note 36 page 105.

### **1.23. Reserves**

The Council maintains a number of reserves which may be required for statutory purposes or set up voluntarily to earmark resources for future spending plans or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to

score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Details of the Council's Revenue Reserves and the movement in the year are shown in Note 22 page 69.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council– these reserves are explained in the relevant policies.

#### **1.24. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

The Council treats the following as Revenue Expenditure Financed from Capital under Statute:

- Expenditure incurred on the acquisition or preparation of a computer program, including expenditure on the acquisition of a right to use the program, if the Council acquires or prepares the program for use for a period of at least one year for any purpose relevant to its functions.
- The giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the Council, be capital expenditure (except for advances made to officers as part of their terms or conditions of employment or in connection with their appointment).
- The repayment of any grant or other financial assistance given to the Council for the purposes of expenditure which is capital expenditure.
- Expenditure incurred on works to any land or building in which the Council does not have an interest, which would be capital expenditure if the Council had an interest in that land or building.
- Expenditure incurred on the acquisition or production of assets for use by a person other than the Council which would be capital expenditure if those assets were acquired or, as the case may be, produced for use by the Council.
- Capitalisation Directions approved by the Secretary of State.

#### **1.25. Capital Salaries**

The salary costs of technical staff working directly on the development and supervision of capital schemes are capitalised and added to the cost of the relevant scheme.

#### **1.26. VAT**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recovered from them.



## **2. 2010/11 Restatements**

The 2011/12 Statement of Accounts has been prepared under the requirement of CIPFA'S 2011/12 Code of Practice on Local Authority Accounting. The key accounting change in the code which impacts on the Authorities 2011/12 accounts relates to the adoption of FRS30 Heritage Assets, whereby a new category of Non Current Assets has been brought into the balance sheet. This represents a change in accounting policy, thus requiring retrospective application which effectively means the Authority has to account for Heritage Assets as if the new policy has always been applied.

In addition, the Tamar Bridge & Torpoint Ferry Joint Committee (TBTFJC) is being brought into the Authority's single entity accounts instead of being consolidated into the Group Accounts as in previous years. This is explained further below.

Both the change of accounting policy in response to adoption of FRS30 and the change of treatment of TBTFJC has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2010/11.

The Code requires a third opening Balance Sheet when an authority applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. This note, and the resulting statements, therefore outlines the impact of the changes to accounting policies on the Balance Sheet for 1 April 2010 and 31 March 2011 and the impact on the Comprehensive Income and Expenditure Statement for 2010/11.

The material differences between the amounts presented in the 2010/11 financial statements and the equivalent amounts presented in the 2011/12 financial statements are explained below and a summary of the impact on the statements is provided on pages 42 to 44.

### **2.1 Heritage Assets**

Following the adoption of FRS30 – Heritage Assets, the Council has reviewed its disclosure of Community Assets to identify any items that meet the criteria for classification as Heritage Assets. This review has resulted in a number of assets being identified for reclassification and in addition, a number of assets that could be recognised on the balance sheet for the first time being reinstated as at 1 April 2010.

The change of treatment has a material impact of the Council accounts. The main impact is £7.062m moving from Community Assets to Heritage Assets on the balance sheet as at 1 April 2010. An additional £2.356m recognised for the first time in 2010/11 being restated into 2009/10 with equivalent revaluation reserve balance also being reinstated, and finally £9.762m in respect of assets being recognised for the first time being reinstated as at 1 April 2010, with equivalent revaluation reserve balance.

### **2.2 Tamar Bridge & Torpoint Ferry Joint Committee (TBTFJC) - Reclassification as a Jointly Controlled Operation**

Plymouth City Council and Cornwall Council have joint effective control over the general operations of the TBTFJC and its financial and operating policies.

The Council has reviewed its interest in TBTFJC in conjunction with Cornwall Council and has established that this falls under the definition included within the code of a Joint Controlled Operation not a Jointly Controlled Entity.

This is primarily due to the Joint Committee's inability to enter into contracts in its own name or raise finance for the purposes of the joint activity.

Both parties have a 50% right (both legally and contractually) to the assets and obligations for the liabilities and the two parties share all interests in the assets.

Previously, the Joint Committee was treated as a Jointly Controlled Entity and was incorporated into the Group Accounts of the Parent authorities.

There is no investment value as no amount was contributed by the Joint Committee partners.

The change of definition to Joint Operation has led to a change in accounting treatment. The Council for the first time included its 50% interest in the assets and liabilities of The Tamar Bridge & Torpoint Ferry Joint Committee into its single entity accounts on a line by line basis.

This change of treatment has a material impact on the Council's accounts. The main impact is to bring in half of the value of the Tamar Bridge (over £200m in total) onto the Council's balance sheet.

In total some £103.9m of net assets have been brought onto the Council's restated balance sheet as at 1 April 2010, offset by £0.4m in earmarked reserves and £103.5m in unusable reserves.

### **2.3 Restatements to the analysis of Service Expenditure**

CIPFA has renamed the Best Value Accounting Code of Practice (BVACOP) to the Service Reporting Code of Practice (SeRCOP) following the incorporation of requirements re international financial reporting standards and the Governments transparency agenda.

2011/12 is the first year where authorities must apply SeRCOP and therefore the 2011/12 Statement of Accounts has been prepared on this basis. One of the changes within the SeRCOP relates to the Service Expenditure Analysis shown within the Comprehensive Income and Expenditure Statement. Income and Expenditure previously reported under the heading Culture, Environment, Regulatory and Planning Services has now been split into three – Cultural and Related Services, Environmental and Regulatory Services and Planning Services. The 2011/12 comparative figures have been restated to reflect the new analysis.

In addition the 2010/11 Gross Income and Expenditure analysis for Financing and Investment Income and Expenditure has also been restated as it has been identified that the totals had included balances relating to Internal Trading Accounts in error. This had the effect of overstating both the Gross Income and Expenditure for the Authority as internal trading activities are recharged to the Client Front Line Services, thus costs had been double-counted. This restatement, although not transparent within the restatements of the CIES shown on the following pages due to this analysis net expenditure changes only, has meant the Gross Income and Expenditure for Financing and Investment Income and Expenditure has been reduced by £14.437m.

**Reconciliation of Total Comprehensive Income and Expenditure for the Year Ended 31st March 2011 to the last published Annual Financial Statements Income and Expenditure**

	<b>Note</b>	<b>Previous Reported</b>	<b>Tamar Bridge &amp; Torpoint Ferry JC</b>	<b>Heritage Assets</b>	<b>Change in Service Analysis</b>	<b>Restated 2010/11 Net Expenditure £000</b>
<u>2010/11 Comprehensive Income and Expenditure Statement</u>		<b>2010/11 Net Expenditure £000</b>	<b>2010/11 Net Expenditure £000</b>	<b>2010/11 Net Expenditure £000</b>	<b>2010/11 Net Expenditure £000</b>	
<b>Gross Expenditure, Gross Income and Net Expenditure on Continuing Operations</b>						
Adult Social Care		73,730	0	0	0	73,730
Corporate & Democratic Core		5,344	0	0	(207)	5,137
Central Services		4,529	0	0	361	4,890
Cultural, Environmental, Regulatory & Planning Services		60,970	0	0	(60,970)	0
Cultural & Related Services		0	0	0	22,906	22,906
Childrens And Education Services		194,070	0	0	(1)	194,069
Environmental & Regulatory Services		0	0	0	31,420	31,420
Housing Revenue Account		(781)	0	0	781	0
Housing Services		13,554	0	0	(786)	12,768
Highways & Transport Services		17,451	1,017	0	29	18,497
Non Distributable Costs		(88,578)	(611)	0	0	(89,189)
Planning Services	6	0	0	0	6,466	6,466
<b>Surplus/Deficit on Continuing Operations</b>		<b>280,289</b>	<b>406</b>	<b>0</b>	<b>(1)</b>	<b>280,694</b>
(Gain) or Loss on Disposal of Fixed Assets	12.5	24,828	0	0	0	24,828
Other Operating Expenditure	9	(1,915)	0	0	0	(1,915)
Financing and Investment Income and Expenditure	10	30,887	469	0	0	31,356
Taxation and Non-Specific Grant Income	11	(261,141)	0	0	0	(261,141)
<b>(Surplus) or Deficit on Provision of Services</b>		<b>72,948</b>	<b>875</b>	<b>0</b>	<b>0</b>	<b>73,822</b>
(Surplus) or deficit on revaluation of fixed assets	22.4	(7,276)		2,355	0	(4,921)
Actuarial (gains)/ losses on pension assets / liabilities	35	(154,807)	(1,491)	0	0	(156,298)
<b>Other Comprehensive Income and Expenditure</b>		<b>(162,083)</b>	<b>(1,491)</b>	<b>2,355</b>	<b>0</b>	<b>(161,219)</b>
<b>Total Comprehensive Income and Expenditure</b>		<b>(89,135)</b>	<b>(616)</b>	<b>2,355</b>	<b>0</b>	<b>(87,397)</b>

**Reconciliation of Net Worth reported at 31 March 2010 within previous published statements to 1 April 2010 Restated Position**

	Note	Previously Reported 31 March 2010	Tamar Bridge & Torpoint Ferry	Heritage Assets	Restated 1 April 2010
	=	£000	£000	£000	£000
Property, Plant and Equipment	12	693,990	117,120	(7,062)	804,048
Heritage Assets	13	0	0	19,180	19,180
Investment Property	14	87,296	0	0	87,296
Intangible Assets	15	1,783	0	0	1,783
Long Term Investments	17.2	30,588	0	0	30,588
Long Term Debtors	18.1	1,335	0	0	1,335
<b>Non Current Assets</b>		<b>814,992</b>	<b>117,120</b>	<b>12,118</b>	<b>944,230</b>
Short Term Investments	17.2	46,288	0	0	46,288
Inventories		429	180	0	609
Short Term Debtors	18.2	47,874	327	0	48,201
Cash and Cash Equivalents	23.4	79,448	(516)	0	78,932
Assets Held for Sale	19	2,510	0	0	2,510
LATS Allowances		0	0	0	0
<b>Current Assets</b>		<b>176,549</b>	<b>(9)</b>	<b>0</b>	<b>176,540</b>
Short Term Borrowing	17.2	(76,918)	0	0	(76,918)
Short Term Creditors	20.1	(71,835)	(1,120)	0	(72,955)
Short Term Provisions	21	(1,624)	0	0	(1,624)
<b>Current Liabilities</b>		<b>(150,377)</b>	<b>(1,120)</b>	<b>0</b>	<b>(151,497)</b>
Long Term Creditors	20.2	(20,661)	0	0	(20,661)
Long Term Provisions	21	(9,146)	0	0	(9,146)
Long Term Borrowing	17.2	(160,348)	0	0	(160,348)
Long Term Liabilities Pensions	35	(449,381)	(2,929)	0	(452,310)
Long Term Liabilities Other	20.3	(69,405)	(9,125)	0	(78,530)
<b>Long Term Liabilities</b>		<b>(708,941)</b>	<b>(12,054)</b>	<b>0</b>	<b>(720,995)</b>
<b>Net Assets</b>		<b>132,223</b>	<b>103,937</b>	<b>12,118</b>	<b>248,278</b>
<b>Represented By:</b>					
Usable Reserves	22.1	83,476	400	0	83,876
Unusable Reserves	22.1	48,747	103,537	12,118	164,402
<b>Total Reserves</b>		<b>132,223</b>	<b>103,937</b>	<b>12,118</b>	<b>248,278</b>

**Reconciliation of Net Worth reported at 31st March 2011 within previous published statements to 31 March 2011 Restated Position**

	Note	Previously Reported 31 March 2011	Tamar Bridge & Torpoint Ferry	Heritage Assets	Restated 31 March 2011
		£000	£000	£000	£000
Property, Plant and Equipment	12	570,243	114,701	(9,418)	675,526
Heritage Assets	13	0	0	19,180	19,180
Investment Property	14	78,025	0	0	78,025
Intangible Assets	15	1,583	0	0	1,583
Long Term Investments	17.2	11,920	0	0	11,920
Long Term Debtors	18.1	731	0	0	731
<b>Non Current Assets</b>		<b>662,502</b>	<b>114,701</b>	<b>9,762</b>	<b>786,965</b>
Short Term Investments	17.2	61,122	0	0	61,122
Inventories		569	340	0	909
Short Term Debtors	18.2	35,151	260	0	35,411
Cash and Cash Equivalents	23.4	92,566	1,266	0	93,832
Assets Held for Sale	19	3,057	0	0	3,057
LATS Allowances		875	0	0	875
<b>Current Assets</b>		<b>193,340</b>	<b>1,866</b>	<b>0</b>	<b>195,206</b>
Short Term Borrowing	17.2	(96,952)	0	0	(96,952)
Short Term Creditors	20.1	(59,902)	(2,379)	0	(62,281)
Short Term Provisions	21	(2,907)	0	0	(2,907)
<b>Current Liabilities</b>		<b>(159,761)</b>	<b>(2,379)</b>	<b>0</b>	<b>(162,140)</b>
Long Term Creditors	20.2	(18,757)	0	0	(18,757)
Long Term Provisions	21	(7,879)	0	0	(7,879)
Long Term Borrowing	17.2	(193,991)	0	0	(193,991)
Long Term Liabilities Pensions	35	(219,313)	(906)	0	(220,219)
Long Term Liabilities Other	20.3	(34,780)	(8,729)	0	(43,509)
<b>Long Term Liabilities</b>		<b>(474,720)</b>	<b>(9,635)</b>	<b>0</b>	<b>(484,355)</b>
<b>Net Assets Less Liabilities</b>		<b>221,361</b>	<b>104,553</b>	<b>9,762</b>	<b>335,676</b>
<b>Represented By:</b>					
Usable Reserves	22.1	80,831	1,019	0	81,850
Unusable Reserves	22.1	140,530	103,534	9,762	253,826
<b>Total Reserves</b>		<b>221,361</b>	<b>104,553</b>	<b>9,762</b>	<b>335,676</b>

### **3. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted**

The Authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Authority.

#### Amendments to IFRS7 Financial Instruments:

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October) 2010 by the Code will result in a change in accounting policy that requires disclosure.

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the standard was 1 July 2011 but we are not required by the Code to implement this amended disclosure requirement until 1 April 2012.

Following a review of the Authority's financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements of the Council.

### **4. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts for 2011/12 are:

The accounting treatment in respect of the Tamar Bridge & Torpoint Ferry activities has been reviewed following challenge by the Authority's external auditor. The operation is now considered to be a joint operation with Cornwall Council. This has resulted in 50% of the financial results during 2011/12 being included in the Council's accounts, in line with the Council's control over the operation.

There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that further assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision, other than those already earmarked for closure as part of budget delivery plans.

As a result of current and future reductions in local government funding the Council is in the process of reviewing and restructuring its services. As a consequence of this process, at the end of the financial year there were plans in place to terminate the contracts of a number of employees. To account for those cases where notice has been served by the Council and reliable calculations for the termination benefits have been prepared, a provision has been set up to cover the liability arising from the termination of these employment contracts (£0.107m).

The Authority has £13m deposited with Icelandic banks which are in administration. Dividend payments are being received in respect of Heritable Bank (£3m original investment), but recovery of monies in Glitnir and Landsbanki (total £10m) is still subject to court proceedings. The Council continues to assume recovery based on priority creditor status for Landsbanki and non priority status for Glitnir, utilising the Capitalisation Direction awarded in 2010/11. This treatment differs from latest guidance issued by CIPFA. The Authority continues to vigorously pursue the recovery of the total debt.

### **5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Changes in discount and Mortality rates	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £19m. Additionally, a 1 year change in mortality rate assumptions would result in a change to the pension liability of £29m.
Property Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate and reductions to council grant funding makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, which may in turn impact on the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Interest Payable	The accounts show an impairment charge of £4.62m for monies invested in Iceland. This is based on the amounts recovered and still subject to recovery as at the date of preparation of the draft statement of accounts. The Council continues to actively pursue recoveries of its monies through the Icelandic Courts. Although further recoveries are possible the uncertainty over future receipts has led to a prudent approach being taken in the preparation of these accounts with the assumption based on no additional receipts.	The Council's claims have been agreed, with priory status confirmed for Glitnir and Landsbanki claims, and distributions have been received from the Administrators and Winding Up Boards for the banks. Based on the latest forecast by the Local Government Association and CIPFA the majority of the monies are expected to be received. Should this be the case this will lead to an adjustment in the impairment charge of £3.467m in the accounts in future years.
Provisions	The Authority has made a provision of £3.322m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Authority or that precedents set by other authorities in the settlement of claims will be applicable. There are currently no dates set for Industrial Tribunal hearings.	An increase or decrease in the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding to or reducing the provision required by £0.300m.
Employee Benefits	The Council is required to accrue for employee benefits earned but not taken by the 31 March 2012. As such this information is not readily available. In order to comply with the accounting requirements, the Council has undertaken a sample of staff across the Council using both the MOL information and annual returns and aggregated this up based on total employee numbers to produce the information on the accrual. In total a sample of 20.5% was achieved. In addition calculations have been made on the value of annual leave carried forward by teachers and other schools staff. The result of these calculations forms the largest part of the accrual due to timing of the financial year end within the academic year.	An increase in the amount of leave carried forward or a change in the analysis of carry forward leave by officer level could result in a potentially different calculation and charge across services. However Statutory Regulations are in place which removes the employee benefit accrual to an employee benefit reserve account so overall there would be no impact on the General Fund Balance.

This list does not include assets and liabilities that have are carried at fair value based on a recently observed market price.

## **6. Material Items of Income and Expense**

### **Non Distributed Costs - Changes to the Local Government Pension Scheme**

During the financial year 2010/11, the Government announced that it planned to increase future pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The actuary accounted for this change in the accounts for 2010/11 as a “past service gain” in the pension’s profit and loss statement as it is assumed that CPI will increase at a lower rate than RPI. The value of the gain for Plymouth was estimated at (£70.177m). The past service gain was shown within the non distributed costs line in the Surplus/deficit on Continuing Operations. In addition this line also included a net gain of (£21.793m) on curtailment and settlements mainly in relation to the post completion valuation of the transfer of staff to Plymouth Community Homes in 2009/10. These items were one-off and only relevant to 2010/11, which contributes to the large difference when comparing the cost of NDC over the two years.

Further details of the movement in the pensions liability is outlined in note 35 page 98.

## **7. Events after the Balance Sheet Date**

The Statement of Accounts was authorised by the Director for Corporate Services on 18 September 2012. Events taking place after this date are not reflected in the draft financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The Statements have been adjusted for the following item:

### **Heart of the South West Local Enterprise Partnership (HotSWLEP) – Accountable Body**

During 2011/12 Plymouth City Council acted as the Accountable Body for the Growing Places Fund (GPF) on behalf of the Heart of the Southwest Local Enterprise Partnership (HotSWLEP), being one the partners in this newly formed economic alliance together with Torbay Council, Devon County Council and several private sector organisations. The Authority held balances of £21m on behalf of HotSWLEP at the year end and this is reflected in the financial statements.

On 4 August 2012, Devon County Council agreed to take over the accountable body responsibility for this fund. As a result, Plymouth transferred the £21m on 6 August 2012 to Devon County Council. This was due to the fact the DCC has a greater capacity to undertake this role with regard to the evolving nature of the fund. This change only affects the administration of the LEP and the Council continues to be fully committed to the initiative in all other aspects.



## 8. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

	2010/11				2011/12			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account (CAA):</b>								
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
Charges for depreciation and impairment of non current assets	167,225			(167,225)	55,152			(55,152)
Movements in the market value of Investment Properties	2,782			(2,782)	8,622			(8,622)
Amortisation of intangible assets	597			(597)	636			(636)
Capital grants and contributions	(41,843)		41,843	0	(29,119)		29,119	0
Movement in the Donated Assets Account					(6,028)			6,028
Revenue expenditure funded from capital under statute	8,363			(8,363)	5,263			(5,263)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	31,021			(31,021)	2,097			(2,097)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>		-	-			-	-	0
Statutory provision for the financing of capital investment	(8,872)			8,872	(8,856)			8,856
Capital expenditure charged against the General Fund balances	(1,708)			1,708	(4,451)			4,451
<b>Adjustments involving the Capital Receipts Reserve:</b>								0
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		1,435		(1,435)		1,447		(1,447)
Other Capital Receipts credited to the Comprehensive Income and Expenditure Statement	(2,072)	2,072		0	(3,744)	3,744		0
<b>Total C/FWD</b>	<b>155,493</b>	<b>3,507</b>	<b>41,843</b>	<b>(200,843)</b>	<b>19,572</b>	<b>5,191</b>	<b>29,119</b>	<b>(53,882)</b>

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Total B/FWD</b>	<b>155,493</b>	<b>3,507</b>	<b>41,843</b>	<b>(200,843)</b>	<b>19,572</b>	<b>5,191</b>	<b>29,119</b>	<b>(53,882)</b>
Long term debtor repayments in year		282		(282)		60		(60)
Use of the Capital Receipts Reserve to finance new capital expenditure		(2,814)		2,814		(18,526)		18,526
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	44	(44)		0	39	(39)		0
<b>Adjustment involving the Capital Grants Unapplied Account</b>								
Use of the Capital Grants unapplied Account to finance new capital expenditure (transfer to CAA)			(48,294)	48,294			(30,497)	30,497
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>								
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	129			(129)	81			(81)
<b>Adjustments involving the Pensions Reserve:</b>								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(54,572)			54,572	17,852			(17,852)
Employer's pensions contributions and direct payments to pensioners payable in the year	(23,160)			23,160	(22,294)			22,294
<b>Adjustments involving the Collection Fund Adjustment Account:</b>								0
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	72			(72)	(852)			852
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account</b>								0
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(525)			525	375			(375)
<b>Total Adjustments</b>	<b>77,481</b>	<b>931</b>	<b>(6,451)</b>	<b>(71,961)</b>	<b>14,773</b>	<b>(13,314)</b>	<b>(1,378)</b>	<b>(81)</b>

## 9. Other Operating Expenditure

This contains corporate items of income and expenditure that cannot reasonably be allocated or apportioned to services.

<u>Other Operating Expenditure</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Levies	194	122
Payments to the Government Housing Capital Receipts Pool	44	39
Other income	(2,153)	(4,054)
<b>Total</b>	<b>(1,915)</b>	<b>(3,893)</b>

Other Income generally relates to capital receipts in year for which no asset can be identified on the Balance Sheet, such as repaid discounts from former Council House sales, covenants and lease premiums as well as the income receivable under the stock transfer agreement relating to VAT shelter receipts.

## 10. Financing and Investment Income and Expenditure

This contains corporate items of income and expenditure arising from the Authority's involvement in financial instruments and similar transactions involving interest or the unwinding of discounts. This heading also includes the income and expenditure relating to investment properties, further details of which can be found in note 14 on page 55.

<u>Financing and Investment Income and Expenditure</u>	<b>2010/11 Restated £000</b>	<b>2011/12 £000</b>
Interest payable and similar charges	12,880	11,384
Pensions interest cost and expected return on pensions assets	14,639	7,274
Interest receivable and similar income	(3,138)	(3,195)
(Surpluses) / deficits on trading undertakings not included in Net Cost of Services	(107)	(230)
Income and expenditure in relation to investment properties and changes in their fair value	724	6,137
Gain on sale of Investment Properties	6,358	(32)
<b>Total</b>	<b>31,356</b>	<b>21,338</b>

## 11. Taxation and Non Specific Grant Income

This item consolidates all the grants and contributions receivable that cannot be identified to particular service expenditure. All capital grants and contributions are credited here even where they are service-specific, unless they are used to finance Revenue Expenditure Funded by Capital Under Statute (REFCUS) spend in which case they are treated as revenue grants and credited to the relevant service line.

<u>Taxation and Non-Specific Grant Income</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Council tax income	(95,732)	(96,758)
Non domestic rates	(92,579)	(85,807)
Non-ringfenced government grants	(37,205)	(33,752)
Capital grants and contributions	(35,625)	(25,670)
<b>Total</b>	<b>(261,141)</b>	<b>(241,987)</b>

Further details of the non ringfenced grants and capital grants and contributions are given in the grants note 31.2 page 91.

## 12. Property, Plant and Equipment

### 12.1. Movement in Year

The movement in Property Plant and Equipment (PPE) is summarised in the following table with comparative figures for 2010/11 following.

	Other Land & Buildings £000	Vehicles, Plant, Furniture & Fittings £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets included in Property, Plant & Equipment £000
Cost or Valuation								
At 1 April 2011	438,277	43,076	219,736	3,502	32	50,004	754,627	24,102
Additions	29,239	12,278	16,112	1,499		4,682	63,810	5
Donations							0	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	9,088				837		9,925	3,992
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(18,322)	(196)			(263)		(18,781)	
Derecognition - disposals	(1,868)	(3,066)		(16)			(4,950)	
Derecognition - other							0	
Assets reclassified (to)/from Held for Sale							0	
Other movements in cost or valuation	20,944	(230)	15,356	(3,463)	6,449	(45,292)	(6,236)	
<b>At 31 March 2012</b>	<b>477,358</b>	<b>51,862</b>	<b>251,204</b>	<b>1,522</b>	<b>7,055</b>	<b>9,394</b>	<b>798,395</b>	<b>28,099</b>
Accumulated Depreciation and Impairment								
At 1 April 2011	(24,780)	(17,191)	(35,999)	(1,122)	(8)	0	(79,100)	(670)
Depreciation charge	(17,324)	(4,124)	(7,809)				(29,257)	(603)
Depreciation written out to the Revaluation Reserve	10,746						10,746	1
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,392	54					3,446	
Impairment losses/(reversals) recognised in the Revaluation Reserve	(8,595)						(8,595)	
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(6,983)	(2,451)	(6)	(1,109)			(10,549)	
Derecognition - disposals	69	2,258		6			2,333	
Derecognition - other							0	
Other movements in depreciation and impairment	6,855	905	(671)	1,116	(3,317)		4,888	
<b>At 31 March 2012</b>	<b>(36,620)</b>	<b>(20,549)</b>	<b>(44,485)</b>	<b>(1,109)</b>	<b>(3,325)</b>	<b>0</b>	<b>(106,088)</b>	<b>(1,272)</b>

#### Net Book Value

At 31 March 2012	440,738	31,313	206,719	413	3,730	9,394	692,307	26,827
At 31 March 2011	413,497	25,885	183,737	2,380	24	50,004	675,526	23,432

	Other Land & Buildings	Vehicles, Plant, Furniture & Fittings	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets included in Property, Plant & Equipment
2010/2011 Comparators	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2010	584,299	40,069	212,015	8,045	425	38,727	883,580	37,318
Additions	12,188	3,869	3,059	1,212		40,096	60,424	2
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,920						4,920	(13,218)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(103,200)	(325)		(390)			(103,915)	
Derecognition - disposals	(26,757)	(725)	(20)	(105)		(175)	(27,782)	
Assets reclassified (to)/from Held for Sale	(300)				(393)		(693)	
Other movements in cost or valuation	(32,873)	188	4,682	(5,260)		(28,644)	(61,907)	
<b>At 31 March 2011</b>	<b>438,277</b>	<b>43,076</b>	<b>219,736</b>	<b>3,502</b>	<b>32</b>	<b>50,004</b>	<b>754,627</b>	<b>24,102</b>
Accumulated Depreciation and Impairment	(36,372)	(13,354)	(26,646)	(3,155)	(4)	0	(79,531)	(760)
Depreciation charge	(19,345)	(4,063)	(6,944)	(641)	(4)		(30,997)	(603)
Depreciation written out to the Revaluation Reserve							0	693
Impairment losses/(reversals) recognised in the revaluation reserve	(3,569)						(3,569)	
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(28,027)	(654)					(28,681)	
Derecognition - disposals	1,383	156	5	76	0	0	1,620	
Other movements in depreciation and impairment	61,150	724	(2,414)	2,598			62,058	
<b>At 31 March 2011</b>	<b>(24,780)</b>	<b>(17,191)</b>	<b>(35,999)</b>	<b>(1,122)</b>	<b>(8)</b>	<b>0</b>	<b>(79,100)</b>	<b>(670)</b>

Net Book Value	Total PPE							
at 31 March 2011	413,497	25,885	183,737	2,380	24	50,004	675,526	23,432
at 31 March 2010	547,927	26,715	185,369	4,890	421	38,727	804,048	36,558

Following completion of the implementation of the Council's new Asset Management Software, Officers undertook a full review of the authority's Asset Register. This exercise established that a correction was required to clarify the treatment of Academy Schools in 2010/11. The effect of this is that the figures for revaluations, impairments, gross book value and accumulated depreciation have been amended from the previously published disclosure. In addition, the review identified a number of corrections required relating to revaluations and classifications across property, plant and equipment and assets held for sale. Due to their value it is believed that the corrections do not relate to fundamental adjustments and restatements aren't required. These corrections are therefore included in the 2011/12 disclosure.

## 12.2. Commitments Under Capital Contracts

The capital commitments outstanding on capital and other works contracts entered into as at 31 March 2012 amounted to £15.028m (2010/11 £42.715m). The Council is committed to complete these contracts under its latest approved Medium Term Capital Programme, and it is anticipated that all works relating to these commitments will be completed within the next financial year.

## 12.3. Trust, Foundation, Voluntary Aided and Academy Schools

The Council has a number of schools that are operated by various trusts, are classed as voluntary aided schools, or have transferred to Academy status. The Council is responsible for providing funding to the schools from the Dedicated Schools Grant (DSG) and Capital Resources, with the exception of the Academies who receive funding direct from the Government. However, the school building and associated land of all these categories of schools effectively passes to the Trustees of the school who have control over the use of the assets. The assets are therefore not shown on the Council's Balance Sheet. During the year 9 schools transferred to Academy status, 3 of which had previously held Trust status.

## 12.4. Revaluations/Impairments

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. 'All valuations are carried out internally under the supervision of Mr P C Palmer BSc (Hons), MRICS, RICS Registered Valuer'. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS) as outlined in the accounting policies. Vehicles and equipment that have a short life / low value are not revalued but carried on the Balance Sheet at historical cost.

The significant assumptions applied in estimating the fair values are:

- for PPE of a non-specialised nature (where a market exists for the current use to which the property is put) this is interpreted as the amount that would be paid for the asset in its existing use (EUV) compared to similar assets of the type, location or condition;
- for PPE of a specialised nature (where no market exists for the continuation of current use), where there is a significant difference between Depreciated Replacement Cost (DRC) and Fair Value, this is interpreted as the amount that would be paid for the asset in its highest and best use i.e. Market Value. This would be dependent on its potential new use compared to similar assets of the type, location or condition;
- for Investment Properties this is interpreted as the amount that would be paid for the asset in its highest and best use i.e. Market Value compared to similar assets of the type, location or condition

<u>Valuation of Property Plant &amp; Equipment*</u>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Surplus Assets £000</b>	<b>Total £000</b>
Carried at historical cost:	3,639	31,313		34,952
Valued at fair value as at:				
2011/12	122,995		3,065	126,060
2010/11	189,117		665	189,782
2009/10	22,313			22,313
2008/09	63,093			63,093
2007/08	39,591			39,591
<b>Total Cost or Valuation</b>	<b>440,748</b>	<b>31,313</b>	<b>3,730</b>	<b>475,791</b>

\* Valuations under the rolling programme are carried out as at 1 April. Under the Code, the PPE asset categories of Infrastructure, Community Assets and Assets Under Construction are carried at historical cost and therefore are not required to be revalued and therefore do not feature in the table above.

## 12.5 Gain/Loss on Disposal of Fixed Assets

In 2011/12, the Council incurred a net loss on disposal of fixed assets of £2.129m (2010/11 £24.828m).

<u>(Gain)/Loss on Disposal of Fixed Assets</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Stock Transfer	613	0
Other Assets Written Off Balance Sheet		
- Land & Property Sales	2,398	742
- Academy Schools	21,642	1,387
- Under Construction	175	0
	<b>24,828</b>	<b>2,129</b>

## 13. Heritage Assets

### Historic Buildings & Monuments

Historic Buildings and Monuments classified as Heritage Assets on the balance sheet include Smeatons Tower, the Elizabethan House and Plympton Guildhall which have been recognised at insurance valuations.

The Authority has a number of other Heritage Assets that are used significantly for the provision of services and therefore are required to be recognised within Property, Plant & Equipment. Examples of these assets include the Central Library and Museum, Plymouth Guildhall, Mount Edgumbe House and the Barbican Waterfront, which includes the Mayflower Steps. These assets are valued as operational assets by the authority's valuers and are currently valued at £10.554m.

### Gold, Silver & Jewellery

The Authority's Gold, Silver & Jewellery collection is reported in the balance sheet at insurance valuation which is based on market values.

Significant items in the collection include a piece of Tudor Silver dating back to around 1571, the Eddystone Lighthouse Salt, a late 17<sup>th</sup> century condiment compendium in the form of the lighthouse, and other Civic Regalia.

### Fine Art & World Cultures

The Authority's Art collection is reported in the balance sheet at insurance valuation which is based on market values.

The Authority holds a number of donated assets within the categories of Gold, Silver & Jewellery and Fine Art & World Cultures. These assets are held in the balance sheet at insurance valuation which are based on market values.

The Authority's policy for the acquisition, preservation and management of museum assets can be found on [www.plymouth.gov.uk](http://www.plymouth.gov.uk) on the museum collections page.

The following table summarises the movement in the balances relating to Heritage Assets during the year:-

	<b>Buildings</b>	<b>Fine Art</b>	<b>Gold, Silver &amp; Jewellery</b>	<b>Total Assets</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cost or Valuation				
As at 1 April 2010	1,713	13,085	4,382	19,180
<b>As at 31 March 2011</b>	<b>1,713</b>	<b>13,085</b>	<b>4,382</b>	<b>19,180</b>
Cost or Valuation				
As at 1 April 2011	1,713	13,085	4,382	19,180
Revaluations		50	180	230
<b>As at 31 March 2012</b>	<b>1,713</b>	<b>13,135</b>	<b>4,562</b>	<b>19,410</b>

## 14. Investment Properties

Investment properties are properties held solely to earn rentals or for capital appreciation or both. In the main the Council's investment properties consists of the City Centre Commercial (Shop) Estate and a number of Industrial Estates.

The following table shows the net gain or loss in the year in relation to the Authority's investment properties which has been accounted for within the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:-

<u>Investment Properties - Expenses and Income</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Rental income from investment property	(3,000)	(3,276)
Direct operating expenses arising from investment property	942	791
<b>Net gain/(loss)</b>	<b>(2,058)</b>	<b>(2,485)</b>

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property. Most of the investment properties are let out on an operating lease basis. Depending on the terms of the individual leases, the Authority may retain a responsibility for repair and maintenance of the exterior fabric of the premises. Any costs incurred are included within the direct operating costs outlined above.

The following table summarises the movement in the fair value of investment properties over the year.

<u>Investment Properties</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Balance at 1 April	87,296	78,025
Additions	0	7,950
Disposals	(6,358)	(903)
Net gains/losses from fair value adjustments	(2,782)	(3,371)
Transfers:		
to/from Inventories (Assets Held for Sale)	0	464
to/from Property, Plant & Equipment	(151)	25
Other changes	20	(5,250)
<b>Balance at 31 March</b>	<b>78,025</b>	<b>76,940</b>



## 15. Intangible Assets

The movement on Intangible Asset balances during the year is as follows:

<u>Intangible Assets</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Balance at start of year:		
Gross carrying amounts	3,605	4,063
Accumulated amortisation	(1,822)	(2,480)
Net carrying amount at start of year	1,783	1,583
Additions: Internal Development Purchases	471	1,127
Amortisation for the period	(597)	(636)
Other changes	(74)	0
Net carrying amount at end of year	1,583	2,074
Gross carrying amounts	4,063	5,138
Accumulated amortisation	(2,480)	(3,064)
<b>Total</b>	<b>1,583</b>	<b>2,074</b>

## 16. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

<u>Capital Expenditure and Income</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
<b>Opening Capital Financing Requirement 1 April</b>	<b>261,258</b>	<b>268,934</b>
<b>Capital Investment</b>		
Operational Assets	60,966	59,873
Non Operational Assets	276	6,986
Revenue Expenditure Funded from Capital under Statute	7,941	5,214
Other Capital Expenditure	700	10
	<b>69,883</b>	<b>72,083</b>
<b>Sources of Finance</b>		
Capital Receipts	(2,814)	(18,526)
less: Long Term Debtors written out in year	267	47
Grants & Contributions applied in year	(48,523)	(31,875)
Revenue & Other Funds	(1,558)	(4,247)
Minimum Revenue Provision	(8,879)	(8,856)
Capital contribution to PFI	(700)	0
	<b>(62,207)</b>	<b>(63,457)</b>
<b>Closing Capital Financing Requirement 31 March</b>	<b>268,934</b>	<b>277,560</b>
<b>Explanation of Movement in Year</b>		
Increase in underlying need to borrow (supported by Government financial assistance)	7,729	217
Increase in underlying need to borrow (unsupported by Government financial assistance)	9,131	18,297
Reduction in underlying need to borrow resulting from other changes in Capital financing Requirement	(9,311)	(9,888)
Assets acquired under Finance Leases	127	0
<b>Increase/Decrease in Capital Financing Requirement</b>	<b>7,676</b>	<b>8,626</b>

## 17. Financial Instruments

### 17.1. Compliance

This Authority has complied with the following: -

It has adopted the CIPFA's Treasury Management in the Public Services: Code of Practice,

Set Treasury Management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

The Council's Treasury Management Strategy which incorporates the annual Investment Strategy was approved by Full Council on 28 February 2011. As an overriding principle, the strategies proposed that in the current financial climate the Council should continue to minimise risk contained within its current debt and investment portfolios by establishing an integrated debt management and investment policy which balanced certainty and security with liquidity and yield. The Council should seek to make greater use of short term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments.

An annual report on the progress of Treasury Management activities against the strategy for the year is required to be presented to full Council and can be found on our website:

<http://www.plymouth.gov.uk/homepage.htm>

### 17.2. Financial Instrument Balances

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

	Long-Term			Current			Total		
	Restated 1 Apr 2010	Restated 31 Mar 2011	31 Mar 2012	Restated 1 Apr 2010	Restated 31 Mar 2011	31 Mar 2012	Restated 1 Apr 2010	Restated 31 Mar 2011	31 Mar 2012
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Borrowings</b>									
Financial liabilities at amortised cost									
PWLB Debt	(27,649)	(61,315)	(61,315)	(1,670)	(427)	(1,268)	(29,319)	(61,742)	(62,583)
Other Borrowings	(132,699)	(132,676)	(132,597)	(75,248)	(96,525)	(16,579)	(207,947)	(229,201)	(149,176)
Devon Debt	(32,580)	0	0	(1,357)	0	0	(33,937)	0	0
Deferred Liabilities	(35,601)	(33,775)	(32,437)	(1,355)	(1,241)	(1,165)	(36,956)	(35,016)	(33,602)
Other Liabilities	(9,125)	(8,729)	(8,947)	(433)	(844)	(563)	(9,558)	(9,573)	(9,510)
Trade Creditors	(495)	(530)	(347)	(35,036)	(30,804)	(28,616)	(35,531)	(31,334)	(28,963)
<b>Total borrowings</b>	<b>(238,149)</b>	<b>(237,025)</b>	<b>(235,643)</b>	<b>(115,099)</b>	<b>(129,841)</b>	<b>(48,191)</b>	<b>(353,248)</b>	<b>(366,866)</b>	<b>(283,834)</b>
<b>Investments</b>									
Loans and receivables:									
Investments	30,588	11,920	1,558	46,288	61,122	27,987	76,876	73,042	29,545
Contractual debtors (net of impairment)	1,336	731	1,091	15,553	12,412	10,473	16,889	13,143	11,564
Cash & cash equivalents	0	0	0	78,932	93,832	53,167	78,932	93,832	53,167
<b>Total investments</b>	<b>31,924</b>	<b>12,651</b>	<b>2,649</b>	<b>140,773</b>	<b>167,366</b>	<b>91,627</b>	<b>172,697</b>	<b>180,017</b>	<b>94,276</b>

Note: LOBOs of £64m have been included in long term borrowing but have a call date in the next 12 months.

### 17.3 Gains and Losses on Financial Instruments

The Income, Expense, Gains and Losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets	
	Measured at amortised cost	Loans and receivables	Total
	£000	£000	£000
2011/12			
Interest expense	12,668		12,668
Impairment losses		(1,284)	(1,284)
<b>Interest payable and similar charges</b>	<b>12,668</b>	<b>(1,284)</b>	<b>11,384</b>
Interest income		(3195)	(3195)
<b>Interest and investment income</b>	<b>0</b>	<b>(3195)</b>	<b>(3195)</b>
<b>Net (gain)/loss for the year</b>	<b>12,668</b>	<b>(4,479)</b>	<b>8,189</b>

	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables	Total
	£000	£000	£000
Restated 2010/11			
Interest expense	12,880	0	12,880
<b>Interest payable and similar charges</b>	<b>12,880</b>	<b>0</b>	<b>12,880</b>
Interest income	0	(3,138)	(3,138)
<b>Interest and investment income</b>	<b>0</b>	<b>(3,138)</b>	<b>(3,138)</b>
<b>Net (gain)/loss for the year</b>	<b>12,880</b>	<b>(3,138)</b>	<b>9,742</b>

### 17.4 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 proportion of debt and investments due to be settled within 12 months of the balance sheet date are presented in the Balance Sheet under short term liabilities or short term investments. This also includes accrued interest for long term investments and borrowings.

The 2011/12 Code of Practice requires the Fair Value of these assets and liabilities to be disclosed for comparison purposes. Fair Value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's-length transaction. The Fair Value of a financial instrument on initial recognition is generally the transaction price. The Council's debt outstanding at 31 March 2011 and 31 March 2012 consisted of loans from the Public Works Loan Board (PWLB) and market loans. The PWLB has provided the Council with Fair Value amounts in relation to its debt portfolio by calculating the amounts the Council would have to pay to extinguish the loans on these dates. In the case of market loans, the Council wrote to the lender. Owing to no response the Fair Value has been calculated based on equivalent swap rates, sourced from Bloomberg, at the Balance Sheet date.

The Council's investment portfolio at the Balance Sheet date consisted entirely of term deposits and call/notice accounts with Banks and Building Societies. The maturity dates of these investments were all within 12 months of the Balance Sheet date.

In the case of short term instruments and deferred liabilities (PFI, finance leases, etc.) the authority deems the carrying amount to be a reasonable approximation of the fair value. The fair value of trade receivables is taken to be the invoiced or billed amount.

<u>Liabilities at amortised cost</u>	<b>Restated 1 Apr 2010</b>		<b>Restated 31 Mar 2011</b>		<b>31 Mar 2012</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
PWLB - maturity	(29,319)	(35,197)	(61,742)	(73,322)	(62,583)	(86,707)
LOBOs	(134,167)	(144,778)	(134,113)	(144,095)	(134,086)	(170,778)
Bonds	(83)	(83)	(83)	(83)	(83)	(83)
Short term borrowing	(73,697)	(73,697)	(95,005)	(95,005)	(15,007)	(15,007)
Devon Debt	(33,937)	(33,937)	0	0	0	0
Deferred Liabilities	(36,956)	(36,956)	(35,016)	(35,016)	(33,602)	(33,602)
Other Liabilities	(9,558)	(9,558)	(9,573)	(9,573)	(9,510)	(9,510)
Creditors	(35,531)	(35,531)	(31,334)	(31,334)	(28,963)	(28,963)
<b>Financial liabilities</b>	<b>(353,248)</b>	<b>(369,737)</b>	<b>(366,866)</b>	<b>(388,428)</b>	<b>(283,834)</b>	<b>(344,650)</b>

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 2012. The equivalent fair value for PWLB loans based on a comparable market rate would be £71.238m a reduction of £15.469m.

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.

<u>Assets carried at amortised cost</u>	<b>Restated 1 Apr 2010</b>		<b>Restated 31 Mar 2011</b>		<b>31 Mar 2012</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Deposits with banks and building societies	75,318	77,502	71,484	72,028	27,987	28,024
Cash & cash equivalents	78,932	78,932	93,832	93,832	53,167	53,167
Contractual Debtors	16,889	16,889	13,143	13,143	11,564	11,564
<b>Financial assets</b>	<b>171,139</b>	<b>173,323</b>	<b>178,459</b>	<b>179,003</b>	<b>92,718</b>	<b>92,755</b>

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

### 17.5 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 from Finance, Assets and Efficiencies and the Director for Corporate Services. The Board meets regularly and acts in accordance with the policies set out by the Council in the annual Treasury Management Strategy. Scrutiny of the Treasury Management Strategy and performance during the year is undertaken by the Audit Committee. 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. In making investment decisions, the Council has regard to a range of information sources including:

- Central banks
- Government Departments
- Debt Management Office
- Multilateral agencies
- Multilateral development banks
- Newspapers and periodicals and internet
- Financial data providers
- Professional bodies and associations
- Annual reports of Banks and Building Societies
- Ratings agencies
- Bank and Building Society websites

The Council's investment strategy for 2011/12 was originally approved by Council on 28 February 2011. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2011/12. This restricted new investments to the following, although as indicated not all of the instruments were used during the year:

- The Debt Management Office
- Other Local Authorities (not used 2011/12)
- AAA-rated Stable Net Asset Value Money Market Funds (not used 2011/12)
- Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the US). (Non-UK Banks not used in 2011-12)
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank (not used 2011/12).
- Treasury Bills (not used in 2011-12)

Until November 2011 the minimum credit rating criteria for new investments was a long term rating of A+/A1/A+ (Fitch/Moody's/S&P). Following downgrades to a number of systemically important financial institutions in the autumn of 2011, a lower minimum credit rating criteria of A-/A3/A- (Fitch/Moody's/S&P) was adopted by the authority.

In the main the Council made use of reserve accounts, allowing instant access to funds. Where longer term investments were made these have been restricted to a maximum 2 years. The table below shows the

nominal value of the Council's investment portfolio at 31<sup>st</sup> March 2012, and confirms that all investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

Counterparty	Credit Rating Criteria Met When Investment Placed	Credit Rating Criteria Met on 31.03.2012	Balance Invested As at 31 March 2012 £000			Total £000
			Up to 1 month	1-3 months	3-6 months	
UK Banks (Deposits)	Yes	Yes	7,000	10,000	5,000	22,000
UK Building Society (Deposits)	Yes	Yes		5,000	5,000	10,000
UK Banks (Call Accounts)	Yes	Yes	46,920			46,920
<b>Total</b>			<b>53,920</b>	<b>15,000</b>	<b>10,000</b>	<b>78,920</b>

The above analysis shows that all deposits outstanding as at 31/03/2012 met the Council's credit rating criteria on the 31 March 2012. The analysis excludes the estimated carrying value after impairment of the Council's Icelandic investments of £0.636m

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with parameters set by the Council.

The Authority's maximum exposure to credit risk in relation to its investments with banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each institution. The Council, for example, is still seeking to recover amounts invested in the Icelandic banks and further details are provided below. A risk of irrecoverability applies to all of the authority's deposits, but there was no evidence at 31 March 2012 that this was likely to crystallize for any further deposits.

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, and no potential additional loss has arisen from institutions being placed in administration. An update on the Council's investments in Icelandic banks is provided below.

Credit Risk	Amounts at 31 March 2012 £000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2012 %	Estimated maximum exposure to default and uncollectability £000
Deposits with banks and other financial institutions	83,975	6.02%	6%	5,055
Customers	11,564	15.53%	n/a	1,796
<b>Total</b>	<b>95,539</b>			<b>6,851</b>

The historical experience of default for deposits with banks and other financial institutions is based on the outstanding amounts invested in Icelandic Banks as a % of the Council's total investments at the end of the year. In terms of risk management, all of the Council's investment portfolio is now held in UK institutions and there is a risk, albeit a small risk, should the UK Government, i.e. the sovereign state, collapse. 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:

Credit Risk	Restated 31 Mar 11	31 Mar 12
	£000	£000
Less than two months	9,588	6,749
Two to three months	301	137
Three to four months	1,177	432
Four months to one year	969	2372
More than one year	1,108	1,874
<b>Total</b>	<b>13,143</b>	<b>11,564</b>

#### 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	6.21	09-Oct-08
	2,000,000	6.16	17-Oct-08
	2,000,000	6.14	20-Oct-08
	1,000,000	6.14	23-Oct-08
	6,000,000		
Landsbanki	1,000,000	6.17	29-Oct-08
	2,000,000	5.8	11-Mar-09
	1,000,000	5.9	11-May-09
	4,000,000		
Heritable	1,000,000	6.23	15-Oct-08
	1,000,000	6.15	17-Oct-08
	1,000,000	5.5	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 Council will be determined by the administrators / receivers. The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

#### Heritable Bank

Heritable bank is a UK registered bank under Scots law. The company was placed in administration on 7 October 2008. To date the Council has recovered £2.261m made up of principal of £2.151m and £0.110m of interest representing 71.71% of the agreed claim, leaving a balance outstanding of £0.892m (including interest).

#### 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 (NBI) 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.

The Council has instructed Bevan Brittan Solicitors (and through them Icelandic and English Counsel) to act for the Council in pursuing its claim through the courts. The Council's claim as a priority creditor was agreed as the principal deposited plus accrued interest at the contract rate to the original maturity of the deposits or to 22 April 2009 where the original maturity was after this date. Distribution of this claim is made by the Landsbanki Winding Up Board (WUB). To date the Council has recovered £1.748m made up of principal of £1.655m and interest of £0.093m representing 41.37% of the agreed claim. The balance outstanding reflected in the Council's accounts is £2.477m (including interest).

#### 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.

The Council has instructed Bevan Brittan Solicitors (and through them Icelandic and English Counsel) to act for the Council in pursuing its claim through the courts. The Council's claim as a priority creditor was agreed as the principal deposited plus accrued interest at the contract rate to the original maturity of the deposits. Distribution of this claim is made by the Glitnir Winding Up Board (WUB). To date the Council has recovered £5.033m made up of principal of £4.742m and interest of £0.291m representing 79.03% of the agreed claim. The balance outstanding reflected in the Council's accounts is £1.335m (including interest).

The Council continues to pursue recovery of the outstanding monies through the Icelandic Courts in partnership with the Local Government Association working on behalf of all Authorities with residual Icelandic Deposits.

The cumulative impairment charge for the Icelandic banks was £7.665m, made up of principal of £5.904m and interest £1.761m. This was charged to the Council's revenue account in 2009/10 and funded from the approved Capitalisation Direction and reserve transfer.

The impairment charge was 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 Council until monies are recovered. Following continued uncertainty over the recovery of deposits this impairment was not changed in the 2010/11.

The Council has reduced this impairment by £1.284m in 2011/12 in line with recoveries made up to the date of publishing these draft accounts. The calculation of the impairment by the Council differs from the guidance issued by CIPFA under LAAP 82 (as updated May 2012) which, recommends the recoveries for Heritable, Landsbanki and Glitnir based on assumed collection rates of 86%, 100% and 100% respectively. The Council has used a prudent approach to both maximising the capitalisation direction it received, and also in calculating the impairment adjustment due to the continued uncertainty over the level of future recovery. If the Council had applied the LAAP guidance the impairment adjustment would have been a reduction of £4.751m, a difference (reduction) of £3.467m. The impairment will continue to be reduced as and when further recoveries are made.

#### 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 with Prudential Indicators included in the Treasury Management Strategy setting maximum levels of debt to mature within any financial year.



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

<u>Loans outstanding</u>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
Public Works Loans Board	(28,889)	(61,315)	(61,315)
Market debt	(130,000)	(130,000)	(130,000)
Temporary borrowing	(73,650)	(94,985)	(15,000)
Local bonds	(83)	(83)	(83)
Devon Debt	(33,937)	0	0
Deferred Liability (PFI)	(33,156)	(31,753)	(31,017)
Deferred Liability (Finance Leases)	(3,800)	(3,263)	(2,585)
Other Liabilities	(9,558)	(9,163)	(9,408)
Trade Creditors	(35,531)	(31,334)	(28,963)
<b>Total</b>	<b>(348,604)</b>	<b>(361,896)</b>	<b>(278,371)</b>

Less than 1 year	(113,643)	(126,301)	(45,326)
Between 1 and 2 years	(3,651)	(1,980)	(1,851)
Between 2 and 5 years	(8,266)	(5,017)	(4,262)
Between 5 and 10 years	(15,869)	(11,334)	(11,371)
Between 10 and 20 years	(20,623)	(26,712)	(46,989)
Between 20 and 30 years	(35,960)	(36,469)	(15,177)
Between 30 and 40 years	(12,220)	(1,411)	(4,505)
Between 40 and 50 years	(22,507)	(41,226)	(37,455)
Over 50 years	(115,865)	(111,446)	(111,435)
<b>Total</b>	<b>(348,604)</b>	<b>(361,896)</b>	<b>(278,371)</b>

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

There is £56m in the over 50 year category of LOBO's which have a call date in the next 12 months.

£15m of short term borrowing in place at 31 March 2012 was taken under approved authority to meet the Council capital financing and cash flow requirements to the end of the financial year. These loans can be repaid from cash flow and maturing deposits in 2012/13 if required thus reducing credit risk. These repayments are not subject to liquidity risk and as there is no need to replace this borrowing as 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.

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 quarterly monitoring reports to Cabinet.

#### Price Risk

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

#### Foreign Exchange Risk

The council currently has approximately £1.187m in Icelandic Krona (ISK) remaining in Escrow in Iceland. The Council is currently working with the LGA, Bevan Brittan and other affected authorities to research ways of converting the ISK element of the impaired Icelandic deposit into Foreign Exchange.

## **18. Debtors**

### **18.1. Long Term Debtors**

<u>Long Term Debtors</u>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
Secured Debt	781	505	865
Council House Mortgages	46	31	20
Other Loans/Mortgages	436	195	206
LATS Purchases	72	0	0
<b>Total Long Term Debtors</b>	<b>1,335</b>	<b>731</b>	<b>1,091</b>

The Council has a number of legal charges secured on properties to cover the payment of Adult Social Care fees and charges for services. Based on historical trends, the Council is unlikely to secure payment of the relevant debt within the next 12 months. Fees and charges for services continue to be raised on a monthly basis which results in the debt increasing until such time as a property is sold and the charge is redeemed.

## 18.2. 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>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
Amounts Falling Due in One Year			
Central Government Departments	19,151	12,226	13,618
Public Corporations & Trading Funds	0	57	0
NHS Bodies	2,860	1,744	3,027
Other Local Authorities	3,540	3,046	1,907
Other entities and individuals	22,650	18,338	14,899
<b>Total Short Term Debtors</b>	<b>48,201</b>	<b>35,411</b>	<b>33,451</b>

## 18.3 Bad Debt Provision

The movement on the allowance for non-collectability of debt (bad debt provision) account over the year was as follows:

<u>Bad Debt Provision</u>	<b>Balance 31 Mar 2011 £000</b>	<b>Provision made in year £000</b>	<b>Provision used in year £000</b>	<b>Balance 31 Mar 2012 £000</b>
General Fund	(1,785)	(788)	425	(2,148)
Housing Benefit Overpayments Provision	(2,054)	(294)	211	(2,137)
Ex HRA Bad Debt Provision	(219)	0	25	(194)
Collection Fund	(6,794)	(639)	547	(6,886)
<b>Total Provisions For Bad Debt</b>	<b>(10,852)</b>	<b>(1,721)</b>	<b>1,208</b>	<b>(11,365)</b>

Further detail on the Collection Fund can be found in note 4 to the Collection Fund on page 111.

## 19. Assets Held for Sale

The following table shows the movement in assets held for sale during the year. All assets are expected to be sold within the next 12 months and are therefore classified as short term for Balance Sheet purposes.

<u>Assets held for Sale</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Balance outstanding at start of year	2,510	3,057
Assets newly classified as held for sale:		
Property, Plant and Equipment	783	1,296
Investment Properties	0	84
Revaluation gains	0	26
Impairment losses	0	(25)
Assets declassified as held for sale:		
Property, Plant and Equipment	(110)	0
Investment Properties	0	(571)
Assets sold	(126)	(24)
<b>Balance as at 31 March</b>	<b>3,057</b>	<b>3,843</b>

## 20. Creditors

### 20.1. Short Term Creditors

Creditors payable within the next 12 months are:

<u>Creditors</u>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
Central Government Departments	(15,841)	(9,834)	(35,343)
Corporations & Trading Funds	(59)	(6)	(26)
NHS Bodies	(1,140)	(1,857)	(3,504)
Other Local Authorities	(5,059)	(5,286)	(4,460)
Other entities and individuals	(50,856)	(45,298)	(45,501)
<b>Total</b>	<b>(72,955)</b>	<b>(62,281)</b>	<b>(88,833)</b>

### 20.2. Long Term Creditors

Creditors falling due after more than 12 months are:

<u>Creditors falling due after more than 12 months</u>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
Other Local Authorities	(20,166)	(18,227)	(16,438)
Other entities and individuals	(495)	(530)	(347)
<b>Total</b>	<b>(20,661)</b>	<b>(18,757)</b>	<b>(16,785)</b>

The amount included within the other Local authorities relates to a liability to Devon County Council for unfunded pension liabilities relating to pre Local Government Reorganisation.

### 20.3. Other Long Term Liabilities

<u>Other Long Term Liabilities</u>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
PFI Finance Leases	(32,453)	(31,017)	(30,246)
Other Finance Leases	(3,148)	(2,759)	(2,190)
Tamar Science Park	(1,224)	(1,004)	(818)
Devon County Council Pre-LGR debt	(32,580)	0	0
Cornwall Council - re Tamar Bridge & Torpoint Ferry	(9,125)	(8,729)	(8,947)
<b>Total</b>	<b>(78,530)</b>	<b>(43,509)</b>	<b>(42,201)</b>

## 21. Provisions

The Council has a number of budget provisions set up to meet known liabilities. Provisions are compulsory and required to comply with accounting standards. The balance on the provisions at year end together with movement in the year is outlined below:

<u>Insurance Provisions:</u>	<b>Balance 31 Mar 2011 £000</b>	<b>Receipts in year £000</b>	<b>Payments in year £000</b>	<b>Unused amounts reversed in year £000</b>	<b>Balance 31 Mar 2012 £000</b>
- General Fund	(3,603)	(2,205)	1,081	673	(4,054)
- Housing	(342)	0	108		(233)
- Employers' Liability	(2,217)	(708)	690	317	(1,918)
- Balance of Risk for Schools	(164)	(89)	111		(142)
- Pre LGR Insurance Liabilities	(47)	0	8		(39)
<b>Total Insurance Provisions</b>	<b>(6,373)</b>	<b>(3,002)</b>	<b>1,998</b>	<b>990</b>	<b>(6,386)</b>
<u>Other Provisions:</u>	<b>Balance 31 Mar 011 £000</b>	<b>Receipts in year £000</b>	<b>Payments in year £000</b>	<b>Unused amounts reversed in year £000</b>	<b>Balance 31 Mar 2012 £000</b>
- Redundancy Provision	(177)	(107)	177		(107)
- CiCT Information Fine	0	(60)	0		(60)
- Rent Collection Account	(171)	0	0		(171)
- Backdated Equal Pay claims	(3,328)	0	6		(3,322)
- Liability for BMW Landfill Usage	(737)	(640)	737		(640)
<b>Total Other Provisions</b>	<b>(4,413)</b>	<b>(807)</b>	<b>920</b>	<b>0</b>	<b>(4,300)</b>
<b>Total Provisions</b>	<b>(10,786)</b>	<b>(3,809)</b>	<b>2,918</b>	<b>990</b>	<b>(10,686)</b>

### 21.1. Insurance Provisions

#### Insurance Funds

With regard to the cost of insurances, the Council insures only part of its risks externally through insurance companies, with other risks covered by specific internal funding. The insurance provision receives contributions from charges made to service revenue accounts for insurance, and payments are made from the fund in respect of insurable liabilities, which are covered internally.

At the year end, the balance on the various funds equates to the best estimate of liabilities from claims.

All of the Council's buildings are insured against fire, whilst some are also covered against other perils. Liability cover includes public liability and employer's liability.

#### Not covered

Liability	First £250,000 of any claim
Main Fire Insurance	First £100,000 of any claim
Money & Fidelity Guarantee	First £10,000 of any claim
Computer All Risks	Variable between £1,000 and £10,000 of any claim
Other All Risks	First £10,000 of any claim

The maximum liability (stop losses) for the Council in any one period is:

Liability	£3.96m
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Main Fire	£0.6m
Money	£0.05m

### Ex HRA Insurance Fund

Although the housing stock was transferred during 2009/10 there are a number of outstanding claims which remain the responsibility of the City Council. Additional claims may also be received in future relating to the period prior to stock transfer. Following the closure of the HRA the risk fund will continue to be separately identified for disclosure purposes but adjustments to the provision will be accounted for within the General Fund.

## **21.2. Other Provisions**

In addition to the insurance provision, the Council also has a number of other provisions set up to meet the costs of liabilities that have not been settled as at the Balance Sheet date.

Of the £10.686m held in provisions at 31 March 2012, £2.878m is expected to be used within the next 12 months and is therefore disclosed as a current liability within the Balance Sheet. The remaining £7.808m is shown within long term liabilities.

## **22. Reserves**

### **22.1. Usable and Unusable Reserves Summary**

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 shows the movement in the year.

<u>Reserves Summary</u>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
<u>Usable Reserves</u>			
General Fund Balance	11,518	11,413	11,301
Earmarked General Fund Reserves	28,985	34,176	26,437
Housing Revenue Account Balance	1,792	0	0
Capital Receipts Reserve	21,359	22,490	9,289
Capital Grants and Contributions Unapplied	20,222	13,771	12,393
<b>Total Usable Reserves</b>	<b>83,876</b>	<b>81,850</b>	<b>59,420</b>
<u>Unusable Reserves</u>			
Revaluation Reserve	121,496	117,811	121,354
Capital Adjustment Account	526,337	385,105	388,987
Financial Instruments Adjustment Account	(3,722)	(3,851)	(3,932)
Pensions Reserve	(472,476)	(238,446)	(352,572)
Collection Fund Adjustment Account	(253)	(325)	527
Unequal Pay Back Pay Account	(1,843)	(1,843)	(1,843)
Accumulating Compensated Absences Adjustment Account	(5,194)	(4,668)	(5,043)
Deferred Capital Receipts	56	43	30
<b>Total Unusable Reserves</b>	<b>164,402</b>	<b>253,826</b>	<b>147,508</b>
<b>Total Reserves</b>	<b>248,278</b>	<b>335,676</b>	<b>206,928</b>

## 22.2. Earmarked Reserves

This note sets out the amounts set aside in earmarked reserves to provide financing for future expenditure plans and policy initiatives.

<u>Earmarked Reserves</u>	Restated balance 1 Apr 2010 £000	Restated Transfer to Reserves in year £000	Restated Transfers from Reserves in year £000	Restated balance 31 Mar 2011 £000	Transfer to Reserves in year £000	Transfers from Reserves in year £000	Balance 31 Mar 2012 £000
Trading Account and other Statutory Ringfenced Reserves	153	2,954	(2,879)	228	3,136	(2,932)	432
Commuted Maintenance	1,155	98	(25)	1,228	15	(267)	976
Education/Schools Earmarked Reserves	9,520	1,971	(2,545)	8,946	4,733	(7,958)	5,721
PCC Earmarked Reserves for policy/future liabilities	15,209	12,641	(7,805)	20,045	5,183	(9,248)	15,980
Other Ringfenced Reserves	2,259	1,277	(296)	3,240	720	(1,157)	2,803
Other Reserves	689	118	(318)	489	196	(160)	525
<b>Total Earmarked Reserves</b>	<b>28,985</b>	<b>19,059</b>	<b>(13,868)</b>	<b>34,176</b>	<b>13,983</b>	<b>(21,722)</b>	<b>26,437</b>

A more detailed breakdown of reserves can be found in Appendix E of the Performance & Finance Report which went to Cabinet on 12<sup>th</sup> June 2012.

<http://www.plymouth.gov.uk/mglInternet/documents/s38401/Performance%20and%20Finance%20Report%20including%20capital%20programme%20update%20appendices.pdf>

The main earmarked reserves and their purpose are as follows:

### Trading Reserves

The Council continues to operate a number of activities as trading activities, for which a separate reserve is held. These include:

- Plymouth City Market
- On street Parking reserve
- Off street Parking Reserve
- Hackney Carriage and Private Hire
- Street Trading

Surpluses and deficits from the operations are either transferred to or from the trading reserve accounts or to the General Fund, subject to statutory limitations. The use of some of these reserves is restricted, e.g. the on-street parking reserve may only be used to support transport related activities. Many of these reserves have now been exhausted with any surpluses generated in the year being required to meet ongoing commitments.

### Commuted Maintenance Reserves

One-off sums are received periodically by the Council from developers towards future maintenance obligations and improvement works arising from land adopted by the Council following development work.

### Education/Schools Reserves

Education carry forwards – A number of reserves are held on behalf of several educational establishments which operate under devolved budgets, whereby any surpluses or deficits are carried forward to the following financial year.

School budget share – Represents unspent balances at the year-end against schools' delegated budgets. The 31 March 2012 balance was £4.449m (31 March 2011 £5.540m).

PFI Reserve – The Council receives PFI credits towards the schools PFI contract at Wood View in equal instalments over the course of the contract. Credits received in excess of costs are carried forward in a reserve to meet future expenditure, thus smoothing expenditure and income over the term of the contract

### **PCC Earmarked Reserves**

These are earmarked reserves for policy and/or future liabilities. They include reserves in relation to Accommodation, Pensions, Redundancies and Waste potential liabilities, along with an Invest to Save Reserve which was set up using balances released from other reserves to be used to support/pump prime invest to save initiatives to deliver budget savings over the medium term.

### **Other Ringfenced Reserves**

These include the reserves for the A386 Park & Ride Leased Spaces and Tamar Bridge & Torpoint Ferry Joint Committee.

### **Other Reserves**

There are several smaller reserves including those relating to Weston Mill Improvements and Real-Time Passenger Information.

## **22.3. Usable Capital Receipts**

Capital receipts are received by the Council for the sale of assets and the repayment of mortgage loans. 75% of receipts relating to former HRA Right To Buy sales, including mortgage repayments, are paid over to central Government whilst the balance remaining may be used for the following:

- To finance capital expenditure
- To be set aside to finance future repayment of debt

The table below shows the movement in the reserve during the year:

<u>Usable Capital Receipts</u>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	21,359	22,490
Add: Receipts from sales of assets etc.	3,795	5,251
Equated Interest	200	113
	<b>25,354</b>	<b>27,854</b>
Less:		
Right to Buy Administration Costs	(6)	0
Housing Pooled Capital Receipts Paid to Central Government	(44)	(39)
Used to Finance Capital Expenditure	(2,814)	(18,526)
<b>Balance at 31 March</b>	<b>22,490</b>	<b>9,289</b>



## 22.4. Revaluation Reserve

The Revaluation Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

The following table details the transactions posted to the account for the period:

	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Balance at 1 April	121,496	117,811
Upward revaluation of assets	36,903	15,229
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(31,983)	(2,908)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus of Deficit on the Provision of Services	4,920	12,321
Transfer to Capital Adjustment Account	0	(2,291)
Release of Investment Property Balance	0	(596)
Difference between fair value depreciation and historical cost depreciation	(6,190)	(6,123)
Accumulated gains on assets sold or scrapped	(2,415)	232
Amount written off to the Capital Adjustment Account	(8,605)	(8,778)
<b>Balance at 31 March</b>	<b>117,811</b>	<b>121,354</b>

## 22.5. Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

The following table shows the transactions posted to the account during the year

<u>Capital Adjustment Account</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Balance at 1 April	526,337	385,105
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non current assets	(161,035)	(33,693)
Revaluation losses on Property, Plant and Equipment	0	(15,336)
Amortisation of intangible assets	(597)	(636)
Revenue expenditure funded from capital under statute	(8,363)	(5,263)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(30,041)	(3,776)
Adjusting amounts written out of the Revaluation Reserve		2,887
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,814	18,526
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	48,295	30,497
Amounts reserved for future capital financing:-		
Statutory provision for the financing of capital investment charged against the General Fund Balance (includes TBTFJC element)	8,873	8,856
Capital expenditure charged against General Fund Balances	1,708	4,450
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(2,782)	(8,622)
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0	6,028
Other Movement on the CAA in year:-		
Write Down of Long Term Debtors	(269)	(47)
Adjustment re Pre 2004 Leases	165	11
<b>Balance at 31 March</b>	<b>385,105</b>	<b>388,987</b>

## 22.6. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement.

Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the General Fund over the next 45 years.

The movement on the account in 2011/12 is shown below:

<u>Financial Instruments Adjustment Account</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Balance 1 April	(3,722)	(3,851)
<u>Movement in year:</u>		
Premiums-amortised cost	53	53
Discounts - amortised cost	(239)	(242)
Soft loans adjustment	7	60
Stepped LOBO Loan Adjustment	50	48
<b>Balance 31 March</b>	<b>(3,851)</b>	<b>(3,932)</b>

## 22.7. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<u>Pension Reserve Account</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Balance at 1 April	(472,476)	(238,446)
Actuarial gains or losses on pensions assets and liabilities	156,298	(118,569)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	53,949	(18,325)
Employer's pensions contributions and direct payments to pensioners payable in the year	23,160	22,294
Increase in Plymouth's share of net deficit in year of Devon County Council Pension Fund	623	474
<b>Balance at 31 March</b>	<b>(238,446)</b>	<b>(352,572)</b>

## 22.8. Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

<u>Collection Fund Adjustment Account</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Balance at 1 April	(253)	(325)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(72)	852
<b>Balance at 31 March</b>	<b>(325)</b>	<b>527</b>

## 22.9. Equal Pay Back Pay Account

Many Authorities are experiencing large numbers of claims for back pay from appeals about equal pay arising from the implementation of the single status agreement. The Equal Pay Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

<u>Equal Pay Back Pay Account</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Balance at 1 April	(1,843)	(1,843)
Increase in provision for back pay in relation to Equal Pay cases	0	0
Cash settlements paid in the year	0	0
<b>Balance at 31 March</b>	<b>(1,843)</b>	<b>(1,843)</b>

## 22.10. Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

<u>Accumulating Compensated Absences Adjustment Account</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Balance at 1 April	(5,194)	(4,668)
Settlement or cancellation of accrual made at the end of the preceding year	5,194	4,668
Amounts accrued at the end of the current year	(4,668)	(5,043)
<b>Balance at 31 March</b>	<b>(4,668)</b>	<b>(5,043)</b>

## 22.11. Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognized in the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Usable capital receipts reserve. The balance on the Deferred Capital Receipts Account represents amounts outstanding on mortgages granted to ex-Council tenants to purchase their Council Houses under Right to Buy (RTB) Legislation. During the year a total of £0.013m (£0.013m 2010/11) was repaid in respect of these loans. The Council no longer offers loans for this purpose. Although the stock has been transferred to PCH, the mortgages remain the responsibility of the Council.

The housing mortgage portfolio is managed by LAMAC. At 31 March 2012 there were 10 mortgages outstanding with a debt of £0.030m.

## 23. Cash Flow Disclosures

### 23.1. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

<u>Note A to the Cashflow Statement</u>	<b>Restated 2010/11 £'000</b>	<b>2011/12 £'000</b>
<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>(73,822)</b>	<b>(22,502)</b>
Adjust net surplus or deficit on the provision of services for non cash movements		
Depreciation	161,793	39,948
Impairment and downward valuations	0	28,404
Amortisation	0	636
Material impairment losses on Investments debited to surplus or deficit on the provision of services in year	0	(1,284)
Soft Loans (non Subsidiary)-Interest adjustment credited to CIES during year	(6)	(60)
Adjustments for effective interest rates	(51)	(47)
Increase/decrease in provision for impairments/doubtful debts re: Loans & Advances	(214)	334
Increase/Decrease in Interest Creditors	(33)	848
Increase/Decrease in Creditors	(12,248)	2,850
Increase/Decrease in Interest and Dividend Debtors	303	2,956
Increase/Decrease in Debtors	4,349	4,048
Increase/Decrease in Inventories	(299)	7
Pension Liability	(54,280)	18,325
Contributions to/(from) Provisions	4	(94)
Provision for Equal Pay	(2)	(4)
Accumulated Absence	(529)	(374)
Carrying amount of non-current assets sold	30,042	3,776
Carrying amount of short and long term investments sold	369,776	138,208
Movement in Investment Property values	0	(4,447)
	<b>498,605</b>	<b>234,030</b>
Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
Capital Grants credited to surplus or deficit on the provision of services	(41,843)	(29,120)
Proceeds from the sale of short and long term investments	(369,776)	(138,211)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(3,776)	(5,363)
	<b>(415,395)</b>	<b>(172,694)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>9,388</b>	<b>38,834</b>

<u>Note B to the Cash Flow Statement - Operating Activities (Interest)</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Ordinary interest received	2,841	299
Soft Loans (non Subsidiary)-Interest adjustment credited to CIES during year	(6)	(60)
Opening Debtor	2,446	3,614
Closing Debtor	(2,143)	(658)
<b>Interest Received</b>	<b>3,138</b>	<b>3,195</b>
Interest charge for year	(12,796)	(10,901)
Adjustments for differences between Effective Interest Rates and actual interest payable	(51)	(47)
Adjustment for impairment losses on Long & Short Term Investments charged to Interest Payable	0	(1,284)
Opening Creditor	(1,949)	(1,916)
Closing Creditor	1,916	2,764
<b>Interest Paid</b>	<b>(12,880)</b>	<b>(11,384)</b>

## 23.2. Cash Flow Statement – Investing Activities

<u>Note C to the Cash Flow Statement - Cash Flows from Investing Activities</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Property, Plant and Equipment Purchased	(70,322)	(64,172)
Purchase of Investment Properties	0	(2,637)
Other Capital Payments	0	(6,294)
Add back new Finance Leases (non cash flow item)	127	0
Opening Capital Creditors	(4,994)	(6,103)
Closing Capital Creditors	6,103	1,173
Movement on other capital creditors	28	4,466
<b>Purchase of Property, Plant and Equipment, investment property and intangible assets</b>	<b>(69,058)</b>	<b>(73,567)</b>
<b>Purchase of short and long term investments</b>	<b>(366,245)</b>	<b>(96,385)</b>
Long term loans granted	(157)	(10)
<b>Other payments for Investing Activities</b>	<b>(157)</b>	<b>(10)</b>
<b>Proceeds from the sale of property plant and equipment, investment property and intangible assets</b>	<b>1,598</b>	<b>5,462</b>
Proceeds from short term investments	355,776	122,211
Proceeds from long term investments	14,000	16,000
<b>Proceeds from short-term and long-term investments</b>	<b>369,776</b>	<b>138,211</b>
Other capital cash receipts	2,998	(676)
Capital Grants Received	41,242	29,141
Other capital cash receipts in advance	24	(21)
<b>Other Receipts from Investing Activities</b>	<b>44,264</b>	<b>28,444</b>
<b>Total Cash Flows from Investing Activities</b>	<b>(19,822)</b>	<b>2,155</b>

### 23.3. Cash Flow Statement – Financing Activities

<u>Note D to the Cash Flow Statement - Cash Flows from Financing Activities</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
Cash receipts of short and long term borrowing	1,102,070	589,560
Billing Authorities - Council Tax and NNDR adjustments	7,648	(279)
Precepting Authorities Only - Appropriation to/from Collection Fund Adjustment Account	(71)	851
Repayment of Short-Term and Long-Term Borrowing	(1,082,247)	(670,697)
Payments for the reduction of a finance lease liability	(663)	(394)
Payments for the reduction of a PFI liability	(1,403)	(737)
<b>Total Cash Flows from Financing Activities</b>	<b>25,334</b>	<b>(81,696)</b>

### 23.4. Cash Flow Statement – Cash and Cash Equivalents

<u>Note E - Makeup of Cash and Cash Equivalents</u>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
Cash and Bank Balances	2,787	1,475	1,161
Cash Investments - regarded as cash equivalents	76,145	92,357	51,964
Bank Overdraft	0	0	0
<b>Total</b>	<b>78,932</b>	<b>93,832</b>	<b>53,125</b>

## 24. Amounts reported for resources allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular no charges are made in relation to capital expenditure whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement. The cost of retirement benefits is based on cash flows payment of employer's pensions contributions rather than current service cost of benefits accrued in the year and expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Authority's General fund directorates recorded in the budget reports for the year is as follows:-

	Chief Executive	Children and Young People	Community Services	Corporate Items	Corporate Support	Development and Regeneration	Total
2011/12	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & other service income	(122)	(139,172)	(39,422)	(15,526)	(17,350)	(14,511)	(226,103)
Government grants & contributions	0	(146,186)	(2,464)	(3,504)	(116,459)	(2,788)	(271,401)
<b>Total</b>	<b>(122)</b>	<b>(285,358)</b>	<b>(41,886)</b>	<b>(19,030)</b>	<b>(133,809)</b>	<b>(17,299)</b>	<b>(497,504)</b>
Employee expenses	2,088	133,664	40,469	3,112	27,139	10,214	216,686
Other operating Expenses	669	193,801	109,408	15,518	135,472	25,071	479,939
Support Service Recharges	1	5,587	2,278	193	632	537	9,228
<b>Total</b>	<b>2,758</b>	<b>333,052</b>	<b>152,155</b>	<b>18,823</b>	<b>163,243</b>	<b>35,822</b>	<b>705,853</b>
<b>Net Cost of Services</b>	<b>2,636</b>	<b>47,694</b>	<b>110,269</b>	<b>(207)</b>	<b>29,434</b>	<b>18,523</b>	<b>208,349</b>

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Net cost of services in Comprehensive Income and Expenditure Statement	<b>£000</b>
Cost of Services in Service Analysis	208,349
Add Adjustments and Amounts not reported in Management accounts (including incorporation of Tamar Bridge & Torpoint Ferry)	75,014
Add Net Expenditure of Services not included in the main analysis (Trading)	(2,059)
Remove amounts reported to management not included in Comprehensive Income and Expenditure	<u>(36,389)</u>
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>244,915</b>



# Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	Service Analysis	Adjustments & Amounts not in Management accounts	Services not in main analysis	Not included in I&E	Net cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(219,771)	129,772	(10,112)	23,350	(76,761)	(38,785)	(115,546)
Government grants & contributions	(271,401)	(2,112)	0	3,546	(269,967)	(145,228)	(415,195)
Income from Council Tax	0	0	0	0	0	(96,758)	(96,758)
Interest and Investment income	(6,332)	0	0	6,332	0	(8,184)	(8,184)
<b>Total Income</b>	<b>(497,504)</b>	<b>127,660</b>	<b>(10,112)</b>	<b>33,228</b>	<b>(346,728)</b>	<b>(288,955)</b>	<b>(635,683)</b>
Depreciation, amortisation and impairment	1,447	45,325	2,947	(2,010)	47,709	1,404	49,113
Employee expenses	216,686	(6,329)	2,141	(29,159)	183,339	40,780	224,119
Gain or Loss on disposal of Fixed Assets	0	0	0	0	0	2,642	2,642
Interest Payments	7,532	0	0	(7,532)	0	25,762	25,762
Other service Expenses	470,838	(120,673)	2,498	(29,266)	323,397	(5,418)	317,979
Payments to Housing Capital Receipts							
Pool	0	0	0	0	0	39	39
Precepts and levies	122	0	0	(122)	0	122	122
Support service recharges	9,228	29,031	467	(1,528)	37,198	1,211	38,409
<b>Total Operating Expenses</b>	<b>705,853</b>	<b>(52,646)</b>	<b>8,053</b>	<b>(69,617)</b>	<b>591,643</b>	<b>66,542</b>	<b>658,185</b>
<b>Surplus or deficit on the provision of services</b>	<b>208,349</b>	<b>75,014</b>	<b>(2,059)</b>	<b>(36,389)</b>	<b>244,915</b>	<b>(222,413)</b>	<b>22,502</b>

## Amounts reported for resources allocation decisions (2010/11 Comparative)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular no charges are made in relation to capital expenditure whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement. The cost of retirement benefits is based on cash flows payment of employer's pensions contributions rather than current service cost of benefits accrued in the year and expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Authority's General fund directorates recorded in the budget reports for the year is as follows:-

	Chief Executive	Children and Young People	Community Services	Corporate Items	Corporate Support	Development and Regeneration	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & other service income	(379)	(205,924)	(43,211)	(14,830)	(16,601)	(14,919)	(295,864)
Government grants & contributions	(691)	(203,518)	(3,648)	(20,944)	(108,832)	(2,876)	(340,509)
<b>Total</b>	<b>(1,070)</b>	<b>(409,442)</b>	<b>(46,859)</b>	<b>(35,774)</b>	<b>(125,433)</b>	<b>(17,795)</b>	<b>(636,373)</b>
Employee expenses	1,824	186,761	44,611	2,757	28,309	10,208	274,470
Other operating Expenses	970	268,913	111,120	21,055	127,834	23,546	553,438
Support Service Recharges	6	5,559	3,533	233	599	465	10,395
<b>Total</b>	<b>2,800</b>	<b>461,233</b>	<b>159,264</b>	<b>24,045</b>	<b>156,742</b>	<b>34,219</b>	<b>838,303</b>
<b>Net Cost of Services</b>	<b>1,730</b>	<b>51,791</b>	<b>112,405</b>	<b>(11,729)</b>	<b>31,309</b>	<b>16,424</b>	<b>201,930</b>

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Net cost of services in Comprehensive Income and Expenditure Statement	£000
Cost of Services in Service Analysis	201,930
Add Adjustments and Amounts not reported in Management accounts (including incorporation of Tamar Bridge & Torpoint Ferry)	101,684
Add Net Expenditure of Services not included in the main analysis (Trading)	(1,799)
Remove amounts reported to management not included in Comprehensive Income and Expenditure	(21,121)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>280,694</b>

## Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	Service Analysis	Adjustments and Amounts not reported in Management Accounts	Services not in Main Analysis	Not included in I&E	Net Cost of Services	Corporate Amounts	Total
<u>Subjective Analysis</u>	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(290,955)	99,957	(8,772)	14,545	(185,225)	(2,059)	(187,284)
Government grants & contributions	(340,509)	5,683	0	20,522	(314,304)	(165,620)	(479,924)
Income from Council Tax	0	0	0	0	0	(95,732)	(95,732)
Interest and Investment income	(4,909)	(6)	(4)	4,909	(10)	(5,161)	(5,171)
<b>Total Income</b>	<b>(636,373)</b>	<b>105,634</b>	<b>(8,776)</b>	<b>39,976</b>	<b>(499,539)</b>	<b>(268,572)</b>	<b>(768,111)</b>
Depreciation, amortisation and impairment	459	154,459	2,430	(456)	156,892	11	156,903
Employee expenses	274,470	(3,452)	1,951	(24,515)	248,454	14,575	263,029
Gain or Loss on disposal of Fixed Assets	0	0	0	0	0	24,828	24,828
Interest Payments	7,706	0	159	(7,706)	159	15,662	15,821
Other service Expenses	545,079	(184,835)	2,072	(27,406)	334,910	6,373	341,283
Payments to Housing Capital Receipts Pool	0	0	0	0	0	44	44
Precepts and levies	194	0	0	(194)	0	194	194
Support service recharges	10,395	29,878	365	(820)	39,818	13	39,831
<b>Total Operating Expenses</b>	<b>838,303</b>	<b>(3,950)</b>	<b>6,977</b>	<b>(61,097)</b>	<b>780,234</b>	<b>61,700</b>	<b>841,933</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>201,930</b>	<b>101,684</b>	<b>(1,799)</b>	<b>(21,121)</b>	<b>280,694</b>	<b>(206,872)</b>	<b>73,822</b>

## 25. Trading Operations

The Council has a number of internal trading operations which form part of the Council's General Fund. In addition, the City Council operates its on and off-street parking facilities, and Plymouth City Market in the City Centre as trading undertakings. The net surplus or deficit on these accounts is transferred to an appropriate trading reserve. With the exception of Plymouth City Market, the trading position for each operation is charged to the relevant service expenditure.

The surplus or deficit in respect of Plymouth City Market is charged as Financing Income and Expenditure (see note 10 page 50).

The following notes report on the Accounts in the required statutory format for each of the Council's main trading services. The Statutory Accounts differ from the Council's management accounts for these services due to a difference in the treatment of the following items:

- Pension Costs (IAS 19)
- Capital Charges
- Employee Benefit accruals

### 25.1. Plymouth City Market

The position on Plymouth City Market for 2011/12 was a net trading surplus of £0.230m. The position prior to the statutory adjustments was a deficit of £0.143m. The net surplus is shown within the Financing and Investment Income line within the Comprehensive Income and Expenditure Statement.

<u>Plymouth City Market</u>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Income from stall holders - Rents and charges	(1,208)	(1,151)
Expenditure	1,101	921
<b>Trading (Surplus)/ Deficit</b>	<b>(107)</b>	<b>(230)</b>

### 25.2. Car Parking Trading Operations

The income and expenditure relating to the Council's car parking activities is disclosed within the cost of Highways and Transport Services, as required under the Service Reporting Code of Practice (SeRCOP). However, as the Council operates these activities as trading undertakings, the financial results of these operations have been included in this Note and are shown below.

<u>Car Parking Trading Operations</u>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Off Street Parking		
Income - Fees and charges	(5,319)	(5,138)
Expenditure	2,908	3,041
<b>Trading (Surplus)/Deficit</b>	<b>(2,411)</b>	<b>(2,097)</b>
On Street Parking		
Income - Fees & Charges	(2,887)	(3,295)
Expenditure	1,565	1,581
Trading (Surplus) / Deficit	(1,322)	(1,714)
<b>Total Car Parking Trading Operations</b>	<b>(3,733)</b>	<b>(3,811)</b>

Prior to the statutory adjustments, the position on the car parking accounts was as follows:

- Off street parking – surplus      £0.424m
- On street parking - surplus      £1.703m

## 26. Agency Services

The City Council carries out certain work on an agency basis on behalf of the Plymouth Primary Care Trust (PCT). The funded nursing care element of nursing home payments is paid with the social care element. In addition, an administrative charge is made to facilitate these payments.

	2010/11 £000	2011/12 £000
Expenditure incurred in providing services on behalf of PCT	4,898	19,313
Administration fee	41	83
Income received from PCT	(4,939)	(19,396)
<b>Net surplus arising on the agency arrangement</b>	<b>0</b>	<b>0</b>

## 27. Pooled Budgets

### 27.1. Plymouth Primary Care Trust

Section 31 of the Health Act 1999, the NHS Bodies and Local Authorities Partnership Arrangements and the Community Care and Health Act 2002 enable establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues.

Plymouth City Council has entered into a pooled budget arrangement with Plymouth Primary Care Trust for the provision of community equipment services to enable the discharge of patients from hospital. The partnership also provides independent assessment, impartial advice and information about equipment and services for disabled people and their carers and provides a point of contact for professionals working in the Plymouth area.

The gross expenditure and income for the pooled budget is as follows:

<u>Adult Social Care - Community Equipment Services</u>	2010/11 £000	2011/12 £000
<b>Income</b>		
Contribution from Plymouth City Council	(772)	(640)
Contribution from Plymouth Primary Care Trust	(530)	(852)
<b>Gross Income</b>	<b>(1,302)</b>	<b>(1,492)</b>
<b>Expenditure</b>		
Employees	69	68
Other	2	2
Third Party Payments		
-Equipment	1,231	1,422
<b>Gross Expenditure</b>	<b>1,302</b>	<b>1,492</b>
Net Expenditure/(Income) for year	0	0
Accumulated deficit/(surplus) brought forward	0	0
<b>Accumulated deficit/(surplus) carried forward</b>	<b>0</b>	<b>0</b>

### 27.2. Youth Offending Service (YOS)

The Youth Offending Service (YOS) is made up of representatives from the police, probation service, children's social services, health, education, drugs and alcohol misuse and housing officers. The YOS identifies the needs of each young offender by assessing them using a national assessment tool, identifying specific problems as well as measuring potential risks. This enables the YOS to identify suitable programmes to address the needs of the young person with the intention of preventing further offending.

<u>Youth Offending Service</u>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Income		
Contribution from Plymouth City Council	(631)	(554)
Contribution from partners - Police, Probation and Health	(163)	(149)
Other income - mainly Youth Justice Board Grants	(1,059)	(655)
<b>Gross Income</b>	<b>(1,853)</b>	<b>(1,358)</b>
Expenditure		
Employees	1,422	1,156
Premises	82	62
Transport	60	45
Supplies & Services	234	47
Third Party Payments	55	48
<b>Gross Expenditure</b>	<b>1,853</b>	<b>1,358</b>
Net Expenditure/(Income) for year	0	0
Accumulated deficit/(surplus) brought forward	0	0
Accumulated deficit/(surplus) carried forward	0	0

### 27.3. Other Pooled Budgets

The Council also has a number of other smaller pooled budget arrangements as follows:

	<b>PCC Contribution</b>
	<b>£000</b>
Plymouth Safeguarding Children Board	124
Green Infrastructure Project	20
Tamar Estuaries Consultative Forum	7

### 28. Members' Allowances

The Council made payments totalling £0.936m (2010/11: £0.937m) to its Members in the year made up as follows:

<u>Members Allowances</u>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Basic Allowance	567	569
Special Responsibility Allowance	367	366
Travel, subsistence and other expenses	3	1
<b>Total</b>	<b>937</b>	<b>936</b>

Travel and subsistence and other expenses covers claims submitted direct by Councillors. Expenses such as rail or air fares may be raised through the Council's internal procurement system. These are charged to the Members support budget where these relate direct to a Member's corporate responsibility, or, if incurred in relation to a specific service issue, direct to the service concerned.

The Council is required to publish details of payments made to its Members and these can be obtained from the Council's website:

<http://www.plymouth.gov.uk/homepage/Councilanddemocracy/membersallowances.htm>, or, in writing, from the Democratic Support Officer, Directorate for Corporate Services, Civic Centre, Plymouth PL1 2AA.

## 29. Officers' Remuneration

### 29.1. Senior Employees

Senior employees earning £50,000 or more per annum who have responsibility for the management of the Council or power to directly control the major activities of the Council are required to be listed by way of job title. Where an employee's remuneration exceeds £150,000 there is an additional requirement that they be identified by name. Plymouth defines relevant senior staff as members of the Corporate Management Team (Directors) and Departmental Management Teams (Assistant Directors). In line with majority of the public sector, a pay freeze was implemented for the Council's senior management in 2011/12.

On 1 March 2012 a new departmental structure was introduced for the Council based on three new directorates focusing on People, Place and Corporate Services. The new structure aims to streamline the management and departmental structures and to better focus on our priorities.

The new senior management structure is set out below:

- the Director for Community Services took on the position of Director for People,
- the Director for Development & Regeneration took on the position of Director for Place,
- the Director for Corporate Support took on the role of Director for Corporate Services
- and the Assistant Director for ICT became the Programme Director for ICT Shared Services.

Senior Management Post	Financial Year	Note Number	Salaries	Fees & Allowances	Redundancy payment	Pension Contributions	Total Remuneration
Salary over £150,000							
Chief Executive - Barry Keel	2011/12	1	171,498	958	0	25,725	198,181
	2010/11		182,505	1,442	0	27,376	211,323
Salary over £50,000 but less than £150,000							
Director for Community Services *	2011/12	2	118,523	1,574	0	17,760	137,857
	2010/11		114,987	1,970	0	17,196	134,153
Director for Development & Regeneration *	2011/12		114,637	432	0	17,196	132,265
	2010/11		114,637	0	0	17,196	131,833
Director for Corporate Support *	2011/12		110,240	0	0	17,196	127,436
	2010/11		110,240	0	0	17,196	127,436
Director for Children and Young People	2011/12	3	111,064	2,023	11,825	16,660	141,572
	2010/11		129,699	2,119	0	19,455	151,273
Assistant Chief Executive	2011/12	4	76,239	27	1,000	11,207	88,473
	2010/11		99,614	157	0	14,942	114,713
Assistant Director Democ. & Governance	2011/12	5	89,444	17	0	17,139	106,600
	2010/11		85,426	58	0	12,691	98,175
Asst Director Learner & Family Support	2011/12		84,606	807	0	12,691	98,104
	2010/11		84,606	1,131	0	12,691	98,428
Asst Dir for Finance, Eff, Tech & Assets	2011/12	6	84,891	185	0	12,691	97,767
	2010/11		84,891	69	0	12,691	97,651
Asst Director for Environmental Services	2011/12		84,606	0	0	12,691	97,297
	2010/11		84,606	0	0	12,691	97,297
Asst Director for HR & Org Development	2011/12		84,606	94	0	12,691	97,391
	2010/11		84,606	0	0	12,691	97,297

Senior Management Post	Financial Year	Note Number	Salaries	Fees & Allowances	Redundancy payment	Pension Contributions	Total Remuneration
Assistant Director for Social Care	2011/12		84,606	499	0	12,691	97,796
	2010/11		84,606	873	0	12,691	98,170
Asst Dir for Adult Health & Social Care	2011/12		84,606	0	0	12,691	97,297
	2010/11		84,606	47	0	12,691	97,344
Assistant Director for Lifelong Learning	2011/12	7	83,014	1,722	0	12,452	97,188
	2010/11		84,606	1,587	0	12,691	98,884
Assistant Director for ICT *	2011/12		84,606	286	0	12,505	97,397
	2010/11		84,606	519	0	12,691	97,816
Assistant Director for Econ. Development	2011/12	8	73,050	293	0	10,957	84,300
	2010/11		70,848	257	0	10,627	81,732
Asst Director for Strategic Housing	2011/12		69,696	119	0	10,454	80,269
	2010/11		72,196	212	0	10,829	83,237
Assistant Director for Planning Services	2011/12		69,696	183	0	10,454	80,333
	2010/11		69,696	107	0	10,454	80,257
Asst Director for Culture Sport Leisure	2011/12	9	65,224	1,698	10,750	9,583	87,255
	2010/11		69,696	1,440	0	10,454	81,590
Assistant Director for Transport	2011/12		69,696	169	0	10,454	80,319
	2010/11		69,696	195	0	10,454	80,345
Assistant Director for CS and BT	2011/12		69,696	0	0	10,454	80,150
	2010/11		69,746	0	0	10,454	80,200
Assistant Director for Safer Communities	2011/12		57,387	648	0	8,575	66,610
	2010/11		57,764	621	0	8,665	67,050

Note 1 Reduction due to no election duties undertaken in 2011/12.

Note 2 Increase as a result of the senior management restructure.

Note 3 Position holder made redundant on 01/02/2012. Post deleted.

Note 4 Position holder made redundant on 31/12/2011. Post deleted.

Note 5 Increase due to local election duties undertaken in 2011/12.

Note 6 Increase due to professional fee paid by the employer.

Note 7 Position holder left the organisation on 25/03/2012. Post deleted.

Note 8 Increase due to higher market forces supplement.

Note 9 Position holder made redundant on 01/03/2012. Post deleted.

\*On 1st March 2012 a new departmental structure was introduced for the Council based on three new directorates focusing on People, Place and Corporate Services.

The disclosure above shows the full year remuneration up to 31 March 2012.



## 29.2. Remuneration above £50,000

The Council is required by statute to disclose the number of employees whose remuneration for the year (excluding employer pension contributions) was £50,000 or more.

The numbers below include the senior management disclosed in section 29.1 page 86.

Remuneration Banding	2010/11	2011/12
£50,000 - £54,999	71	61
£55,000 - £59,999	48	41
£60,000 - £64,999	41	25
£65,000 - £69,999	23	21
£70,000 - £74,999	9	9
£75,000 - £79,999	0	2
£80,000 - £84,999	10	5
£85,000 - £89,999	4	6
£90,000 - £94,999	2	3
£95,000 - £99,999	3	1
£100,000 - £104,999	1	0
£105,000 - £109,999	1	1
£110,000 - £114,999	3	1
£115,000 - £119,999	1	1
£120,000 - £124,999	0	2
£125,000 - £129,999	0	0
£130,000 - £134,999	1	0
£135,000 - £169,999	0	0
£170,000 - £174,999	0	1
£175,000 - £179,999	0	0
£180,000 - £184,999	1	0
<b>Total</b>	<b>219</b>	<b>180</b>

The table below analyses the numbers between schools based staff and non schools based staff.

	2010/11	2011/12
Schools Based Staff:		
Teaching staff	135	101
Non teaching	2	1
<b>Sub Total</b>	<b>137</b>	<b>102</b>
Non Schools staff	82	78
<b>Total</b>	<b>219</b>	<b>180</b>

## 29.3 Employee Exit Packages

The authority incurred costs during 2011/12 relating to employee exit packages linked to compulsory and voluntary redundancies, a summary of which is shown below:

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11 £000	2011/12 £000
£000								
0 - 20,000	116	106	1	83	117	189	592	1,073
20,001 - 40,000	8	12	1	4	9	16	235	297
40,001 - 60,000	0	2	1	0	1	2	42	109
60,001 - 250,000	1	3	0	0	1	3	82	381
<b>Total</b>	<b>125</b>	<b>123</b>	<b>3</b>	<b>87</b>	<b>128</b>	<b>210</b>	<b>951</b>	<b>1,860</b>

The Authority terminated the contracts of a number of employees in 2011/12 including school based staff, incurring liabilities of £1.860m (£0.950m in 2010/11). This includes a sum of £0.660m to the pension fund in respect of pension strain payments. The Council's expenditure on Schools is primarily funded by the Dedicated Schools Grant provided by the Department of Education.

Reasons for termination included early retirement, voluntary and compulsory redundancies. In the case of compulsory redundancies the council's Redundancy Avoidance Policy provide the possibility of redeployment to other jobs suited to the experience and ability of staff concerned in case of compulsory redundancies.

The above total for 2011/12 includes £0.107m provision for liabilities relating to employees who have received a redundancy notice but who have not left the authority by 31 March 2012.

## 30. External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

<u>External Audit Costs</u>	2010/11	2011/12
Audit Area:	£000	£000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	336	322
Fees payable to the Audit Commission with regard to external audit services carried out in respect on the Tamar Bridge and Torpoint Ferry Joint Committee	9	7
Fees payable to Grant Thornton for the certification of grant claims and returns	49	81*
Fees payable in respect of other services provided by the appointed auditor.	4	9
Rebates received for reduction in external audit fee	(34)	(20)
<b>Total</b>	<b>364</b>	<b>399</b>

\* The figure for the certification of grant claims include £0.052m in respect of 2011/12.

## 31. Government Grants

### 31.1. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies, the Dedicated Schools Grant (DSG), provided by the Department for Education (DfE). DSG is ring fenced and can only be applied to meet

expenditure properly included in the Schools Budget, as defined in the Schools Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2011/12 are as follows:

<u>Schools Budget Funded by Dedicated Schools Grant 2011/12</u>		<b>Schools Budget Funded by Dedicated Schools Grant 2011/12</b>		
		<b>Central Expenditure</b>	<b>Individual Schools Budget</b>	<b>Total</b>
Note		<b>£000</b>	<b>£000</b>	<b>£000</b>
A	Final DSG for 2011/12			122,799
B	Overspend brought Forward from 2010/11			(216)
C	Brought fwd from 2012/13 agreed in advance			152
D	Agreed budgeted distribution in 2011/12	12,686	110,049	122,735
E	Actual central expenditure	11,849		
F	Actual ISB deployed to schools		109,065	
G	Local authority contribution for 2011/12	0	0	0
H	Carry forward of Under/(Overspend) to 2012/13	837	984	1,670

<u>Comparative Figures for 2010/11</u>		<b>Schools Budget Funded by Dedicated Schools Grant 2010/11</b>		
		<b>Central Expenditure</b>	<b>Individual Schools Budget</b>	<b>Total</b>
Note		<b>£000</b>	<b>£000</b>	<b>£000</b>
A	Final DSG for 2010/11			140,851
B	Carry Forward from 2009/10			(1,452)
C	Brought fwd from 2011/12 agreed in advance			415
D	Agreed budgeted distribution in 2010/11	12,046	127,768	139,814
E	Actual central expenditure	11,959		
F	Actual ISB deployed to schools		127,656	
G	Local authority contribution for 2010/11	0	0	0
H	Carry forward to 2011/12 Under/(Overspend)	87	112	(216)

- A. DSG Figure £125,129k as issued by DfE on 1 July 2011, was reduced by March 2012 for Academy recoupment of £2,806k increased for Standards Fund 5<sup>th</sup> payment of £783k and reduced for Academies Teachers Pay Grant liability of £307k.
- B. Figure brought forward from 2010/11 as agreed with the DfE.
- C. Amount the authority decided after consultation with the Schools Forum in March 2011 to bring forward to 2011/12 rather than distribute in 2012/13 was £425k, which was decreased by the difference between the actual and estimated balance brought forward from 2010/11 of £83k, decreased by the value of 80% charitable relief on business rates for converter academies of £254k and increased by the difference between Final and Estimated DSG of £64k.
- D. Budgeted distribution of DSG as per Published Section 251 Budget Statement as reported to the Schools Forum in March 2011 as reduced for Academy recoupment of £2,806k and Academies Teachers Pay Grant liability of £307k.

- E. Actual amount of central expenditure items in 2011/12.
- F. Amount of ISB actually distributed to schools in 2011/12.
- G. Any contribution from the local authority in 2011/12 which will have the effect of substituting for DSG in funding the Schools Budget.
- H. Carry forward to 2012/13 of the underspend against the Published Section 251 Budget Statement as amended for Academy recoupment of £2,806k and Academies Teachers Pay Grant liability of £307k for:  
     Central Expenditure and  
     Individual Schools Budget.  
     Total is carry forward of Central Expenditure plus carry forward of Individual Schools  
     Budget minus carry forward to 2012/13 agreed in advance (row C).

### 31.2. Grant Income - Credited to the Comprehensive Income and Expenditure Statement (CIES)

The Authority credited the following revenue grants to Service areas in 2011/12:-

<u>Government Grants Credited to Services</u>	<b>Restated 1 Apr 2011</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Mandatory Rent Allowances & Non HRA Rent Rebates	85,121	92,439
Rent Rebates granted to HRA Tenants	(152)	(58)
Council Tax Benefit Grant	21,115	21,649
Benefits Admin Grant	2,486	2,430
Housing Subsidy (HRA) - payable to the national pool	(73)	0
Schools Standards Grant	7,538	0
Education Standards Fund	18,224	0
Learning and Skills Council	21,057	7,206
Surestart	9,122	0
DSG & Other Education Grants	140,116	122,776
Early Intervention Grant	0	11,673
Mental Health	150	0
Social Care Reform	1,243	0
Learning Disability and Health Reform	0	2,348
Other Social Services Grants	62	0
New Deal for Communities	1,453	670
Homelessness	341	0
New Homes Bonus	0	957
Local Area Agreements - Performance Reward Grant	757	0
Local Area Agreements - Pump Priming Monies	11	0
Concessionary Fares	1,115	0
Local Sustainable Transport Fund	0	1,021
Diploma Specific Grant	730	47
Growth Fund	299	130
Think Family / Parent Practitioner Grants	903	0
Youth Offending Grants	889	649
Contaminated land	0	30
Other Revenue Grants	1,623	304
<b>Total Revenue Grants Received</b>	<b>314,130</b>	<b>264,271</b>

The above revenue grants are in addition to the non-ringfenced Government grants reported in Note 11 on Page 50.

In addition the following capital grants and contributions have been credited to the Comprehensive Income and Expenditure Statement:

<u>Capital Grants and Contributions</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Big Lottery	(256)	(287)
Culture, Media & Sport	(75)	0
DEFRA	(157)	(49)
Department for Transport	(9,399)	(4,581)
Department of Communities & Local Government	(5,109)	(891)
Department of Health (Social Services)	(538)	(674)
Department for Education and Skills	0	(11,156)
England Netball	(100)	(100)
Environment Agency	(407)	(133)
Forestry Commission	(70)	(49)
Home Office SSCF	(45)	0
National Lottery	(3)	(99)
New Deal for Communities	(408)	(108)
Other Capital Contributions	(2,318)	(1,825)
Other Capital Grants	(633)	(375)
Other Children's Services Capital Grants	(1,220)	(102)
South West Councils	(200)	0
South West Regional Development Agency	0	(6,792)
Standards Fund	(17,277)	0
Sure Start Children's Grant	(2,940)	0
Section 106 - Plymouth Development Tariff	(40)	(187)
Section 106 - Negotiated Element	(648)	(1,711)
<b>Total Grants &amp; Contributions Received</b>	<b>(41,843)</b>	<b>(29,119)</b>

The above grants and contributions were credited to the CIES as follows:

<u>Capital Grants and Contributions</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Adult Social Care	(455)	(66)
Cultural, Environmental, Regulatory & Planning Services	(828)	(66)
Central Services to the Public	(16)	0
Children's And Education Services	(2,875)	(1,680)
Housing Services	(1,937)	(1,468)
Highways & Transport Services	(50)	(170)
Corporate & Democratic Core	(28)	0
Non Distributable Costs	(27)	0
Total Recognised in the Surplus/Deficit on Continuing Operations	(6,216)	(3,450)
Financing and Investment Income and Expenditure	(2)	0
Total Recognised in the Surplus/Deficit on Continuing Operations	(6,218)	(3,450)
Taxation and Non-Specific Grant Income	(35,625)	(25,669)
<b>Total Recognised in the (Surplus) or Deficit on Provision of Services</b>	<b>(41,843)</b>	<b>(29,119)</b>

### 31.3 Grants held on the Balance Sheet

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The grants are carried on the Balance Sheet as a creditor in a grants receipts in advance account.

The balances at the year-end are as follows:

<u>Revenue Grant Receipts in Advance</u>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
Skills Funding Agency	0	0	(710)
Children's Workforce Development Grant	0	0	(322)
Stepping Stones to Nature	(20)	(28)	(32)
Worklessness Co-ordinator Grant	0	(15)	0
CILT	0	(1)	0
Children's University	0	(6)	0
Connecting Classrooms	0	(4)	0
SW International Education Network	0	(1)	0
Youth Offending Teams Grant	0	(14)	0
Warm Homes Healthy People	0	0	(119)
Metta Catherina Project	0	0	(21)
Comenius Regio Partnerships	0	0	(24)
YPLA - Provision of Further Education	0	0	(41)
Discretionary Housing Payments	0	0	(33)
Other Grants	(69)	(30)	(70)
<b>Total</b>	<b>(89)</b>	<b>(99)</b>	<b>(1,372)</b>

<u>Capital Grants Receipts in Advance</u>	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
Big Lottery Play Grant	(146)	0	0
Local Sustainable Transport Fund	0	0	(100)
Department for Education and Skills	0	0	(304)
Playbuilder Grant	(406)	0	0
Heritage Lottery Grant	(588)	(1,356)	(3,167)
Aiming High Grant	(116)	0	0
Sure Start Capital Grant	(1,313)	0	0
ESC Lottery Fund / Sport England	(1,990)	(1,990)	(1,990)
S278, S38 & S228 Agreements with Developers	(286)	(286)	(356)
S106 Negotiated Element	(6,641)	(6,308)	(4,408)
S106 Plymouth Development Tariffs	(16)	(174)	(626)
Other Contributions	(97)	(97)	(195)
<b>Total</b>	<b>(11,599)</b>	<b>(10,211)</b>	<b>(11,146)</b>

## 32. Related Party Transactions and Partnerships

### 32.1. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been

constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The table below outlines transactions between the Council and its subsidiaries, associates, jointly controlled and other assisted organisations where the influence is considered to be material, either to the Council or to the organisation.

<u>Related Party Transactions</u>	<b>2010/11</b>		<b>2011/12</b>	
	<b>Receipts</b>	<b>Payments</b>	<b>Receipts</b>	<b>Payments</b>
	£000	£000	£000	£000
Subsidiary, Associated and Jointly Controlled organisations				
Plymouth Investment Partnerships Ltd (PIP)	(31)	0	(65)	0
Tamar Science Park Ltd	0	202	0	77
The PLUSS Organisation Ltd	(44)	930	(6)	841
Assisted Organisations				
Call 24 Hour Ltd	(3)	94	(19)	124
Careers South West	(13)	2,221	(5)	1,711
Destination Plymouth	0	77	0	59
Devon Audit Partnership	(25)	670	(27)	473
Mayflower no 2 Trust	(29)	8	(31)	110
Millfields CEDT	(86)	110	(89)	86
Mount Batten Sailing and Water Sports Centre	(41)	151	(4)	108
Plymouth Citizens Advice Bureaux	0	218	0	249
Plymouth City Centre Company	(141)	1	(329)	26
Plymouth Waterfront Partnership	0	79	(1)	30
Routeways Board	(2)	611	(13)	518
Shekinah Mission	(3)	276	(1)	273
Theatre Royal (Plymouth) Ltd	(1)	2,640		
Wolseley CEDT	(208)	233	(260)	278
<b>Totals</b>	<b>(627)</b>	<b>8,521</b>	<b>(850)</b>	<b>4,963</b>

There are no related party transactions disclosed for Theatre Royal for 2011/12 as the Council no longer holds voting rights on the board.

#### Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Housing Benefits). Details of transactions with Government Departments are set out in note 31 pages 89 to 93.

#### Members and Officers

Members of the Council have direct control over the Council's financial and operating policies. Members and Officers of the Council have returned 75 declarations of Related Party Transactions for 2011/12, a response rate of 93.75%. Where returns have not been submitted, the Register of Members' Interest has been checked for declarations. Travelling, subsistence, relocation and Members' allowances were discounted entirely in the assessment of related party transactions. There were 7 returns containing itemised transactions considered to be related transactions. The relevant Members did not take part in any discussion or decision relating to these transactions, details of which are recorded in the Register of Members' Interest, which is open to public inspection.

## 32.2. Accountable Body Schemes

### New Deal for Communities (NDC)

The Council was the accountable body for the New Deal for Communities (NDC) Grant for the period it was managed and delivered through the Devonport Regeneration Community Partnership (DRCP). The NDC programme came to its natural completion at the end of 2010/11, however the Council currently holds a sum of £0.241m in a revenue reserve relating to agreements with DRCP to fund agreed activities post programme. Of this balance £0.022m will be transferred to the Devonport Neighbourhood Board for commissioning work in the Devonport Area.

### Homelessness Initiatives

The remaining balance of £0.047m central government funding in relation to various regional homelessness initiatives will be paid over to Exeter City Council as part of the rough sleepers partnership.

### Growing Places Fund

During 2011/12 Plymouth City Council acted as the Accountable Body for the Growing Places Fund (GPF) on behalf of the Heart of the Southwest Local Enterprise Partnership (HotSWLEP). The GPF, allocated by the Department for Communities and Local Government (DCLG), will be used by the HotSWLEP to invest in key items of infrastructure to enable development. The money invested in projects may be required to be returned to the LEP for re-investment in further infrastructure projects. The funds, totalling £21.5m, were received by PCC during February 2012 and it will be the HotSWLEP who will have responsibility for allocating the funding to specific projects that fit the funding criteria. The projects will be monitored and assessed by the HotSWLEP with the Accountable Body ensuring that the funding is being used on capital projects only.

The Council ceased to be the Accountable Body for the Growing Places Fund in August 2012, with this responsibility being transferred to Devon County Council with both parties' agreement. This change only affects the administration of the LEP and the Council continues to be fully committed to the initiative in all other aspects. Further details are provided in the Material Events after the Balance Sheet date section below and in Note 7 on page 47.

### Local Sustainable Transport Fund

Plymouth City Council hosted a successful bid to the DfT's Local Sustainable Transport Fund for £2.98m towards smart public transport ticketing across the region in 2011/12. The Council hosted the bid on behalf of a third party organisation called South West Smart Applications Limited, which is a not for profit company made up of the 15 South West Local Authorities and large bus operators. In 2011/12 £0.830m revenue and £0.305m capital was claimed from the DfT which matches exactly the spend profile for the year. The remaining funds will be spent in 2012/13.

## 33. Leases

### 33.1. Authority as a lessee – finance leases

The buildings acquired under a finance lease are carried in the Balance Sheet as Investment Property and the other assets are carried as Property, Plant and Equipment at the following net amounts:

	<b>Restated 1 Apr 2010 £000</b>	<b>Restated 31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>
Other Land and Buildings	1,904	1,904	1,904
Vehicles, Plant, Furniture and Equipment	2,725	2,448	1,781
	<b>4,629</b>	<b>4,352</b>	<b>3,685</b>

During 2011/12 depreciation of £0.242m (2010/11: £0.414m) was charged in relation to assets held under finance leases.

The Authority is committed to making minimum payments under these leases comprising both settlement of the long - term liability for the interest in the assets acquired by the Authority together with the finance



costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	1 Apr 2010 £000	31 Mar 2011 £000	31 Mar 2012 £000
Finance lease liabilities (net present value of minimum lease payments):			
Current	651	504	395
Non Current	3,148	2,759	2,190
Finance costs payable in future years	4,365	4,151	3,895
<b>Minimum lease payments</b>	<b>8,164</b>	<b>7,414</b>	<b>6,480</b>

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments			Finance Lease Liabilities		
	1 Apr 2010 £000	31 Mar 2011 £000	31 Mar 2012 £000	1 Apr 2010 £000	31 Mar 2011 £000	31 Mar 2012 £000
Not later than one year	905	733	576	651	504	395
Later than one year and not later than five years	2,139	1,737	1,128	1,431	1,083	550
Later than five years	5,120	4,944	4,776	1,717	1,676	1,640
<b>Total</b>	<b>8,164</b>	<b>7,414</b>	<b>6,480</b>	<b>3,799</b>	<b>3,263</b>	<b>2,585</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

The Authority has sub-let some of the accommodation held under these finance leases. At 31 March 2012 the minimum payments expected to be received under non-cancellable sub-leases was £2.070m (31 March 2011 – £2.472m)

### 33.2. Authority as a lessee – operating leases

The Council leases vehicles, equipment and some buildings under operating lease for its operational purposes. The future minimum lease payments due in future years under non-cancellable leases are:

<u>Operating leases - Authority as a lessee</u>	1 Apr 2010 £000	31 Mar 2011 £000	31 Mar 2012 £000
Not later than one year	1,858	760	1,145
Later than one year and not later than five years	3,849	1,138	1,890
Later than five years	4,062	4,250	4,476
<b>Total</b>	<b>9,769</b>	<b>6,148</b>	<b>7,511</b>

The expenditure charged in the Comprehensive Income and Expenditure Statement during the year in relation to these assets was:

	2010/11 £000	2011/12 £000
Minimum lease payments	1,619	1,459
<b>Total</b>	<b>1,619</b>	<b>1,459</b>

### 33.3. Authority as a lessor – operating leases

The Council is a lessor of a number of properties, including city centre shops and several retail and industrial units. The future minimum lease payments receivable under non-cancellable leases are:

<u>Operating Leases</u>	<b>1 Apr 2010</b>	<b>31 Mar 2011</b>	<b>31 Mar 2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not later than one year	3,780	2,288	4,532
Later than one year and not later than five years	11,784	7,872	14,320
Later than five years	158,672	110,471	347,552
<b>Total</b>	<b>174,236</b>	<b>120,630</b>	<b>366,404</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

### 34. Private Finance Initiatives and Similar Contracts

The Council entered a PFI agreement with Pyramid Consortium on 27 February 2007 to provide new school facilities at Whiteleigh and the amalgamation of primaries at Bull Point and Barne Barton. Payments under the contract became effective in February 2008 when the first of the schools, the new primary school at Riverside, was opened. The Whiteleigh school campus, Woodview, opened in phases during 2008/09 with the final phase, and thus full campus, being opened in March 2009. The contract runs for a 25 year period. The contract specifies the minimum standards for the services to be provided by the contractor, with deductions from the fee payable if the facilities are unavailable or performance is below minimum standards. The contractor took on an obligation to build the schools and maintain them in a minimum acceptable condition and to procure and maintain the equipment needed to operate the school. The buildings and any equipment installed within them will be transferred to the Council for nil consideration at the end of the contract.

The assets are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance note 12 page 51.

The Authority makes an agreed payment each year, part of which is subject to an annual inflation increase, and can be reduced if the contractor fails to meet availability and performance standards in any one year but which is otherwise fixed. A total payment of £5.535m was made in 2011/12. Payments remaining to be made under the PFI contract at 31 March 2012, excluding any estimation of inflation and availability / performance deductions are as follows:

<u>PFI Outstanding Liabilities</u>	<b>Payment for Services</b>	<b>Reimbursement of Capital Expenditure</b>	<b>Interest</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Total Payments to Operator in 2011/12</b>	<b>2,026</b>	<b>736</b>	<b>2,773</b>	<b>5,535</b>
Payable in 2012/13	1,697	770	2,709	5,176
Payable within two to five years	7,740	3,374	10,138	21,252
Payable within six to ten years	11,914	5,119	10,876	27,909
Payable within eleven to fifteen years	14,129	7,156	8,299	29,584
Payable within sixteen to twenty years	16,181	10,596	4,703	31,480
Payable within twenty one to twenty five years	4,913	4,002	393	9,308
<b>Total</b>	<b>56,574</b>	<b>31,017</b>	<b>37,118</b>	<b>124,709</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred, and interest payable, whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

<u>Movement in PFI Liability</u>	<b>2010/11</b> <b>£000</b>	<b>2011/12</b> <b>£000</b>
Balance outstanding 1 April	33,156	31,753
Payments during the year	(703)	(736)
Capital Contribution	(700)	0
<b>Balance Outstanding 31 March</b>	<b>31,753</b>	<b>31,017</b>

The Council has secured PFI credits to the value of £49m, to which interest is added resulting in total Government support of £101.888m over the contract period, and this together with an annual contribution from the Council of approximately £0.600m will be used to meet the running costs of the contract, including the loan repayments.

The PFI credits will be paid to the Council at a rate of £3.982m per annum. Spend to be incurred during the contract will vary from year to year as lifecycle works are undertaken. No lifecycle works were carried out in 2011/12. The Council transfers any surplus resources for the PFI scheme to a PFI reserve to match commitments that will be incurred in later years.

## **35. Pensions**

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until the employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

### **35.1. Pension Schemes Accounted for as Defined Contribution Schemes**

#### Teachers Pension Scheme

Teachers employed by the Authority are members of the Teachers' Pension scheme administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the authority contributes towards the cost by making contributions based on a percentage of member's pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2011/12, Plymouth City Council paid £7.104m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.57% of pensionable pay. The figures for 2010/11 were £11.087m and 15.74%. There were no contributions remaining payable at the year-end.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 35.2 below.

### **35.2. Defined Benefit Pension Schemes**

#### Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

### Local Government Pension Scheme (LGPS)

Plymouth City Council and Tamar Bridge & Torpoint Ferry Joint Committee participate in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit scheme based on final pensionable salary.

The Joint Committee Scheme is administered by Cornwall Council and so separate notes have been included to represent Plymouth City Council's 50 % interest.

### **Pension Information for Plymouth City Council Scheme (PCC)**

#### Transactions relating to post employment benefits

In 2011/12 the Council paid an employer's contribution of £18.061m (2010/11: £19.506m), representing 19.4% of employees' pensionable pay into Devon County Council's Pension Fund, which provides members with defined benefits, related to pay and service. Employees are also required to contribute to the pension scheme and the contribution rate is determined by annual salary level. In 2011/12 the minimum contribution level was 5.5% of salary, and the maximum level was 7.5%.

The Council recognises the cost of retirement benefits in the surplus/deficit on continuing services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against Council Tax is based on the cash payable in the year, and the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

<u>Comprehensive Income and Expenditure Statement</u>	<b>Restated 2010/11 £000</b>	<b>2011/12 £000</b>
<b>Cost of Services</b>		
Current Service Cost	23,739	18,393
Past Service Cost / (Gain)	(70,177)	12
Settlements and Curtailments	(21,793)	(7,595)
<b>Financing and Investment Income and Expenditure</b>		
Interest Cost	41,169	36,172
Expected Return on Assets in Scheme	(26,595)	(28,879)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>(53,657)</b>	<b>18,103</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Actuarial gains & losses	(154,807)	118,045
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(208,464)</b>	<b>136,148</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(77,200)	(4,407)
Actual amount charged against the General Fund Balance for pensions in the year		
Employers' contributions payable in scheme	19,671	18,731
Retirement benefits payable to pensioners	3,249	3,306
Adjustment re net increase / decrease pre LGR pension liability	623	473
<b>Total</b>	<b>(53,657)</b>	<b>18,103</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £133.112m.

The Council is responsible for funding all discretionary increases in pensions (e.g. added years) awarded to staff retiring early and monthly payments are made to Devon County Council for these additional costs. Payments in 2011/12 relating to these costs were £1.064m (2010/11: £1.054m).

Plymouth became a Unitary Authority from 1 April 1998, assuming responsibility for all local government services in Plymouth, including those previously provided by Devon County Council. Under the transfer arrangements, Plymouth and Torbay pay a proportion of Devon's annual pension costs in respect of discretionary pension payments agreed by Devon in earlier years (i.e. before reorganisation). Plymouth's payment to Devon in 2011/12 towards this liability was £1.316m (2010/11: £1.316m).

### 35.3. Assets and liabilities in relation to post employment benefits (PCC)

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

<u>Reconciliation of present value of the scheme liabilities (defined benefit obligation)</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Opening balance at 1st April	(832,590)	(674,870)
Current Service Cost	(23,739)	(18,393)
Interest Cost	(41,169)	(36,172)
Contributions by scheme participants	(6,644)	(6,094)
Actuarial gains / (losses) on liabilities	131,477	(100,441)
Benefits paid	20,027	23,996
Past Service Cost / Gain	70,177	(12)
Entity combinations		
Curtailments	(257)	(1,043)
Settlements	5,915	17,963
Unfunded pension payments	1,933	1,990
<b>Closing present value of liabilities</b>	<b>(674,870)</b>	<b>(793,076)</b>

Reconciliation of fair value of the scheme (plan) assets:

<u>Reconciliation of fair value of the scheme (plan) assets</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Opening balance at 1st April	384,870	455,557
Expected rate of return	26,595	28,879
Actuarial gains & losses	21,669	(17,604)
Employer contributions	19,671	18,731
Contributions by scheme participants	6,644	6,094
Benefits paid	(20,027)	(23,996)
Entity combinations		
Settlements	16,135	(9,325)
<b>Closing balance at 31 March</b>	<b>455,557</b>	<b>458,336</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 £17.604m (2010/11: £21.669m).

### 35.4. Scheme History (PCC)

<u>Scheme History</u>	<b>31 Mar 2008</b>	<b>31 Mar 2009</b>	<b>31 Mar 2010</b>	<b>31 Mar 2011</b>	<b>31 Mar 2012</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Present value of liabilities:					
Local Government Pension Scheme	(560.69)	(614.71)	(797.11)	(641.47)	(757.78)
Discretionary Benefits	(31.88)	(36.69)	(37.14)	(33.40)	(35.30)
Fair Value of Assets in the Local Government Pension Scheme					
Local Government Pension Scheme	395.21	320.87	384.87	455.56	458.34
Discretionary Benefits					
<b>Net pension asset / (liability)</b>	<b>(197.36)</b>	<b>(330.53)</b>	<b>(449.38)</b>	<b>(219.31)</b>	<b>(334.74)</b>

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £331.84m is shown as a negative balance and therefore has an impact on the net worth of the authority as recorded in the Balance Sheet. However the negative balance that arises measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £15.527m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £1.089m.

### 35.5. Basis for Estimating Assets and Liabilities (PCC)

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries, estimates for the City Council's share of the Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

<u>Long-term expected rate of return on assets in the scheme:</u>	<b>2010/11</b>	<b>2011/12</b>
	<b>%</b>	<b>%</b>
Equity investments	7.4	6.3
Gilts	4.4	3.3
Other Bonds	5.5	4.6
Property	5.4	4.3
Cash	3.0	3.0
Absolute Return Funds	5.0	4.7
Mortality assumptions@		
Longevity at 65 for current pensioners		
Men	20.3	20.5
Women	24.4	24.5
Longevity at 65 for future pensioners		
Men	22.4	22.5
Women	26.3	26.4
Rate of inflation	3.5	3.3
Rate of increase in salaries	5.0	4.7
Rate of increase in pensions	2.7	2.5
Rate for discounting scheme liabilities	5.5	4.6
Take-up of option to convert annual pension into retirement lump sum	50%	50%

### 35.6. Total Assets (PCC)

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

<u>Categories by proportion of the total assets held</u>	<b>1 Apr 2010</b>	<b>31 Mar 2011</b>	<b>31 Mar 2012</b>
	%	%	%
Equities	69	70	69
Gilts	17	17	18
Property	6	5	6
Cash	7	7	6
Absolute Return Funds	1	1	1

### 35.7. History of Experience Gains and Losses (PCC)

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

<u>Actuarial Gains</u>	<b>2007/08</b>		<b>2008/09</b>		<b>2009/10</b>		<b>restated 2010/11</b>		<b>2011/12</b>	
	£m	%	£m	%	£m	%	£m	%	£m	%
Differences between the expected and actual return on assets	(30.03)	(7.60)	(108.08)	(33.68)	87.45	22.72	21.67	4.30	(17.60)	3.80
Experience gains and losses on liabilities	(5.27)	(0.90)	(2.78)	(0.40)	4.92	0.60	11.67	1.70	0.00	0.00
<b>Total</b>	<b>(35.30)</b>	<b>(8.50)</b>	<b>(110.86)</b>	<b>(34.08)</b>	<b>92.37</b>	<b>23.32</b>	<b>33.34</b>	<b>6.00</b>	<b>(17.60)</b>	<b>7.80</b>

The Council is required to show the gains or losses relating to the Pension Fund within its accounts. The actuarial assumptions used to calculate the reserve account balance are outlined in note 22.7 page 74. Liability values do not depend on market returns but yields from corporate bonds and inflation expectations. The key parameter is the real corporate bond yield i.e. the yield from corporate bonds less the assumption about future inflation.

## Pension information for Tamar Bridge & Torpoint Ferry Joint Committee

### 35.8. Transactions in the Comprehensive Income and Expenditure Statement and Movement in Reserve Statement

<u>Comprehensive Income and Expenditure Statement</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
<b>Cost of Services</b>		
Current Service Cost	255	241
Past Service Cost / (Gain)	(611)	0
Financing and Investment Income and Expenditure		
Interest Cost	397	337
Expected Return on Assets in Scheme	(333)	(355)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>(292)</b>	<b>222</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Actuarial gains & losses	(1,491)	524
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(1,783)</b>	<b>746</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(532)	(35)
Actual amount charged against the General Fund Balance for pensions in the year		
Employers' contributions payable in scheme	240	257
<b>Total</b>	<b>(292)</b>	<b>222</b>

The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is £2.234m.

### 35.9. Assets and Liabilities in Relation to Post Employment Benefits

<u>Reconciliation of present value of the scheme liabilities (defined benefit obligation)</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Opening balance at 1st April	(7,652)	(6,093)
Current Service Cost	(255)	(241)
Interest Cost	(397)	(337)
Contributions by scheme participants	(74)	(81)
Actuarial gains / (losses) on liabilities	1,429	(275)
Benefits paid	245	263
Past Service Cost / Gain	611	0
<b>Closing present value of liabilities</b>	<b>(6,093)</b>	<b>(6,763)</b>

<u>Reconciliation of fair value of the scheme (plan) assets</u>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Opening balance at 1st April	4,723	5,187
Expected rate of return	333	355
Actuarial gains & losses	62	(249)
Employer contributions	240	257
Contributions by scheme participants	74	81
Benefits paid	(245)	(263)
<b>Closing balance at 31 March</b>	<b>5,187</b>	<b>5,368</b>



The actual return on scheme assets in the year was £0.108m (2010/11: £0.465m).

The liabilities show the underlying commitments that the Joint Committee has to pay in the long run to pay post-employment (retirement) benefits. The total liability of £1.394m has an impact on the net worth of the authority as recorded in the Balance Sheet. However the negative balance that arises measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

The total contributions expected to be made to the Local Government Pension Scheme via the Joint Committee in the year to 31 March 2013 is £0.242m.

### 35.10. Scheme History

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Cornwall Council pension scheme liabilities have been assessed by Hymans Robertson and Company, an independent firm of actuaries, estimates for the City Council's share of the Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

<u>Scheme History</u>	<b>31 Mar 2008</b>	<b>31 Mar 2009</b>	<b>31 Mar 2010</b>	<b>31 Mar 2011</b>	<b>31 Mar 2012</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Present value of liabilities:					
Tamar Bridge & Torpoint Ferry Joint Committee	(4.76)	(4.71)	(7.65)	(6.09)	(6.76)
Fair Value of Assets in the Local Government Pension Scheme					
Tamar Bridge & Torpoint Ferry Joint Committee	4.62	3.59	4.72	5.19	5.37
Net pension asset / (liability)	(0.14)	(1.12)	(2.93)	(0.90)	(1.39)

### 35.11. Basis for Estimating Assets and Liabilities

<u>Long-term expected rate of return on assets in the scheme:</u>	<b>2010/11</b>	<b>2011/12</b>
	<b>%</b>	<b>%</b>
Equity investments	7.5	6.2
Gilts		
Other Bonds	4.9	4.0
Property	5.5	4.4
Cash	4.6	3.5
Absolute Return Funds		
Mortality assumptions@		
Longevity at 65 for current pensioners		
Men	21.3	21.3
Women	23.4	23.4
Longevity at 65 for future pensioners		
Men	23.2	23.2
Women	25.6	25.6
Rate of inflation	2.8	3.3
Rate of increase in salaries	5.1	4.8
Rate of increase in pensions	2.8	2.5
Rate for discounting scheme liabilities	5.5	4.8

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

### 35.12. Total Assets

<u>Categories by proportion of the total assets held</u>	<b>31 Mar 2011</b>	<b>31 Mar 2012</b>
	<b>%</b>	<b>%</b>
Equities	72	68
Bonds	14	16
Property	7	7
Cash	7	9
<b>Total</b>	<b>100</b>	<b>100</b>

### 35.13. History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

<u>Actuarial Gains</u>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Differences between the expected and actual return on assets	(8.53)	(39.25)	16.79	1.20	(4.63)
Experience gains and losses on liabilities	(1.56)	(0.39)	(0.01)	(3.00)	0.87
<b>Total</b>	<b>(10.09)</b>	<b>(39.64)</b>	<b>16.78</b>	<b>(1.80)</b>	<b>(3.76)</b>

## 36. Contingent Liabilities / Assets

### 36.1. Contingent Liabilities

The Council has the following contingent liabilities to report.

#### 1. PLUSS Organisation Ltd

PLUSS was set up as a company on 1 August 2005.

The three originating Councils, Plymouth, Torbay and Devon are technically 'members' of the company and agreed to provide a range of support to the company. Each agreed to provide a loan to PLUSS to provide working capital for the Company on its formation, they were joined by Somerset at a later date. Plymouth provided £0.235m. The loan was to be deferred for the first five years and would fall due to be repaid over the following ten years, commencing 31 March 2011. The commencement of the repayment of the loan has started in 2011/12.

Additionally Plymouth along with Devon, Torbay and Somerset provide PLUSS with a guarantee on their bank overdraft of £0.250m with Barclays plc.

The Council has also guaranteed any necessary payments to the pension fund for transferred employees, which would become due in the event of PLUSS becoming insolvent.

#### 2. Single Status Equal Pay Claims

The Council has received a number of equal pay claims. The claims are yet to be heard in court, so the actual value of claims cannot be assessed with any certainty. In addition, future claims are unknown. A provision has been set up in the accounts based on an estimated value for claims received up to 31 March 2008 funded from the approved Capitalisation Direction for 2007/08. An additional provision has been set up for claims submitted after 1 April 2008. The additional provision has not been funded but reversed out of the accounts using a statutory override issued in 2009/10. The Council is not required to make specific budget provision for these costs until they are actually paid. A sum of £0.350m was set aside in the accounts

during 2009/10 to meet claims arising since 1 April 2008, and has been further increased in 2011/12. Case law is still evolving in this area and successful claims at other authorities have highlighted that awards can be significant and have a significant impact on Councils' budgets. The Council has not yet been informed of any hearing dates from the Employment Tribunal.

### **3. Civic Centre**

On 21 June 2007 the City Council was informed that the Civic Centre had been Grade II listed and since that time Council Officers have been working on solutions to determine the future for the building and site. Expressions of interest from developers have now been received and a number of development options are being considered in the context of the Council's overall Accommodation Strategy and current property market conditions.

If the property is not sold then the Council will consider alternative options for the property. The future of the building therefore still remains subject to uncertainty and as such the Council continues to include the Civic Centre on its strategic risk register.

As on-going work the Council continues to inspect, repair and maintain the premises taking appropriate action, given the restrictions of the listing, to mitigate any health and safety risks. The Council has an accommodation reserve account which will be used to meet the escalating costs of maintenance and repair in the short term.

### **4. Careers South West (formerly Connexions)**

On 31 March 2009 the Council formally entered an agreement with Cornwall Council, Devon County Council and Torbay Council to set up a local authority controlled company to run the Devon and Cornwall Connexions service from 1 April 2008. Plymouth is the lead commissioner for the service and the Company is expected to operate within the financial constraints set by the four authorities.

However, in setting up the company there is an expectation that the Councils will guarantee to meet the costs of any risks resulting from pension liabilities of staff should the company be wound up. Based on the latest actuarial returns there is a deficit on the fund at 31 March 2012, and therefore there could be a liability to the Council in the future. The status of the fund will vary from year to year and will be updated by the Actuary.

The Four Councils and the Board are considering the current position of the organisation to understand the full nature of what events might trigger this liability.

### **5. Plymouth Community Homes**

As part of the stock transfer negotiations the Council was required to provide a number of warranties to the funders of Plymouth Community Homes. These include:

- an environmental warranty whereby the Council has agreed to warrant that no dangerous substance is present in the property that has transferred or that no part of the Property has been or could lawfully be designated as contaminated land;
- an asbestos warranty where the Council has agreed to reimburse Plymouth Community Homes the costs of asbestos containment or removal should the cost of such works exceed £10m in the first 12.5 years.

In addition the Council has provided a Pension guarantee whereby the Council has agreed to protect the Pensions Administering Authority against the insolvency, winding up or liquidation of Plymouth Community Homes Ltd.

### **6. Contaminated Land**

The Council has a statutory duty to review all land within its district including land it owns or occupies to identify whether it may have been contaminated by past use and carry out a risk assessment if previous potentially contaminative land use is identified. Initial risk assessment usually involves an initial theoretical data gathering exercise (involving collection and interpretation of historical/environmental/local data). Following this exercise, and subsequent intrusive investigation, if actual unacceptable risk to humans and or the environment is demonstrated, land may be classified as contaminated and remediation required.

The Council is also responsible for clean up/remediation of any land that it owns/occupies or where it may be the original polluter. The Council may also be called upon to fund clean up/remediation of 'orphan' sites whose owners cannot be traced and/or where the original polluter cannot be found. Potential cost might further arise where land is sold for development and contamination is subsequently discovered during development or other site works.

Risk assessment alone can cost many thousands of pounds depending on site size and historic use profile. There is no specific Council budget provision for these works and a national government funding source that has been successfully accessed in the past may not be available in the near future. There is also no specific Council budget provision for site clean up/remediation, despite this being a statutory requirement under certain circumstances.

The Council has undertaken a programme of investigative works (and finalising some reinstatement works at Lipson Vale) during 2011/12 and is planning further work in 202/13. This will help inform the size of the potential liability.

In addition to the above ongoing action, the Council is currently working in partnership with the Environment Agency to research the possibility of landfill gas capture on some of its top 'priority' sites. There is some potential for gas capture to be combined with remediation works and the possibility of external funding being accessed.

In the meantime the Council will continue to take the necessary steps to ensure that risk is managed appropriately through any land sale contract but should the purchaser be unable to meet any future liabilities that arise the cost may still revert to the Council.

## **7. Treasury Management – Potential Investment Losses**

No treasury management activity is without risk. The successful identification, monitoring and control of risk are important and integral elements of the Council's treasury management activities. The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The Council will continue to maintain a counterparty list based on its approved investment criteria and will monitor and update the credit standing of the institutions on a regular basis.

The Council has residual investments with institutions no longer on the approved counter party list, although these have reduced significantly over the year. Council Officers will continue to manage risk out by the most appropriate methods in conjunction with our Treasury Advisors.

In respect of the £13m invested in Icelandic banks, the Council made an impairment adjustment of £5.9m in its 2009/10 accounts, £1.284m of this has been reversed during 2011/12 following actual repayments received to date. The actual amount that may be recovered remains subject to much uncertainty and the final outcome on the Icelandic banks will not be known for some years to come as decisions are now subject to mitigation through the Icelandic Courts. However the Council continues to robustly pursue recovery of its monies.

## **8. Eastern Corridor Integrated Transport Scheme**

The Council is facing a potential claim from Amey (Local Government) Ltd under the Highway Services Contract over delays incurred on the Gdynia Way Construction Works. Amey have claimed that the delays have arisen due to the incorrect design of some elements of the works due to inaccurate surveys supplied by the Council.

Amey are claiming that the costs arising from the alleged inaccurate survey are the liability of the Council under the terms of the Highway Services Contract. The Council is arguing that Amey has not yet proved the survey was inaccurate, and, that Amey is out of time under the contractual provisions for making the claim.

If the Council is found liable for the survey works it would seek to recover any sums it has to pay to Amey from the Consultant employed to carry out the work. The Council has engaged Leading Counsel and expert witnesses to progress the situation, and has presented findings to the original consultant.

The Council is in correspondence with Amey over the out of time contractual argument and Amey's response to the contractual arguments raised is awaited.

## 9. Redundancy Payments

The Council continues its programme of down sizing and this will result in some redundancies. At this stage it is not possible to quantify exact numbers, however where plans are finalised provision has been made within the accounts. At 31 March 2012, 32 employees had been issued with a redundancy notice and had been placed within the redeployment pool. These relate to the changes on the provision of Social Care services and restructuring within other services. The Council has recognised a provision for termination benefits of £0.068m, plus pension strain costs of £0.039m in the accounts for 2011/12.

## 10. Personal Search Fees

There is a possible future liability in relation to prospective claims from personal search companies about personal search fees (which is a national issue affecting many Local Authorities). The size of the claim is not yet known but could be significant. The prospect of a claim is looking increasingly likely and this may be settled in the current or next financial year.

## 36.2. Contingent Assets

The Council has the following contingent assets to report:

### 1. VAT 'Fleming' claims

The Council has received in 2011/12 a net £1.6m in respect of previous overpaid VAT for the final outstanding 'Fleming' claim, this was agreed at Council on 27 February to be transferred to the redundancy reserve

### 2. Overpaid Landfill Tax

A claim was submitted in March 2011 to HMRC for the reclaim of overpaid Landfill Tax covering the period between January 2007 and March 2008 at Chelson Meadow where it has been established that Landfill had been used for engineering purposes and is therefore exempt from landfill tax. HMRC issued a brief on the 18<sup>th</sup> May 2012 which has clarified their position and potentially resolves any disputes outstanding as they are closing the loophole from 2009 onwards, leaving no objections to claims for 2006 to 2009. This matter is hoped to now be resolved during 2012/13.

### 3. Plymouth Airport

Plymouth City Airport is let on 150 year lease from 2004. The Council's Lessee served notice of its intention to close the airport in December 2010 because of continuing trading losses. On 23 August 2011 the Council's Cabinet accepted the notice of non-viability from the Lessee following receipt of three independent reviews of the airport business and options for its financial viability. The airport closed for business in December 2011. The Council's freehold and the Lessee's leasehold interest are due to be merged and the former Lessee will then be responsible for obtaining planning permission and marketing the site. Any eventual net land disposals proceeds will be divided between the Council and the former Lessee 75%/25%. However the timing and amount of any such receipts is uncertain and is subject to a review of strategic planning policies applicable to the site

## 37. Trust Funds and Special Balances

The City Council holds 18 Trust Funds and administers 4 other special balances. The funds do not represent assets of the City Council. Although most of the accounting records of these funds are held within the City Council's financial accounting system, they do not form any part of the Council's Balance Sheet. A summary of the income and expenditure, assets and liabilities is shown below:

<u>Trust Funds and Special Balances</u>	<b>2011/12 Income £000</b>	<b>2011/12 Expenditure £000</b>	<b>31 Mar 2012 Assets £000</b>	<b>31 Mar 2012 Liabilities £000</b>
Brock Trust	(15)	0	812	0
Other Trusts & Special Balances	(33)	23	523	0
<b>Total</b>	<b>(48)</b>	<b>23</b>	<b>1,335</b>	<b>0</b>

## COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2012

This Account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

2010/11 £000		Note	2011/12	
			£000	£000
	Income			
(93,510)	Council Tax Payers:	1		(93,624)
	Transfer from General Fund - Council Tax			
(20,989)	Benefits			(21,522)
(75,949)	Income Collectable from Business Ratepayers	2		(80,739)
<b>(190,448)</b>				<b>(195,885)</b>
	Expenditure			
	Precepts and Demands:	3		
95,714	Plymouth City Council		95,922	
12,060	Devon & Cornwall Police Authority		12,068	
5,527	Devon & Somerset Fire Authority		5,531	
<b>113,301</b>				<b>113,521</b>
	Non-Domestic Rates:			
75,638	Payment to National Pool		80,428	
311	Cost of collection allowance		311	
<b>75,949</b>				<b>80,739</b>
1,177	Provision for non payment of Council Tax	4		666
107	Collection Fund (Deficit recovered) / Surplus paid out in year			(28)
<b>86</b>	<b>(Surplus)/Deficit for the year</b>			<b>(987)</b>
<b>276</b>	<b>(Surplus)/Deficit as at 1 April</b>			<b>362</b>
<b>362</b>	<b>(Surplus)/Deficit as at 31 March</b>	5		<b>(625)</b>

## NOTES TO THE COLLECTION FUND

### 1. Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands based on an estimated 1 April 1991 value for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Devon & Cornwall Police Authority, Devon and Somerset Fire Authority and the City Council for the forthcoming year and dividing this by the Council Tax base - the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts and estimated collection rates: 77,066 in 2011/12 (76,899 in 2010/11).

This basic amount of Council Tax for a Band D property (£1,473.04 for 2011/12) is multiplied by the proportion specified for the particular band to give an individual amount due. The calculation of the Council Tax Base is shown in the following table:

Band	No of Properties Before Discounts	No of Properties After Discounts	Band D Equivalents	Estimated Collection Rate	Adjusted Band D Equivalents
A	46,395	37,323	24,873	98.50%	24,500
B	30,600	25,801	20,067	98.50%	19,766
C	21,631	18,906	16,805	98.50%	16,553
D	8,823	7,742	7,742	98.50%	7,626
E	4,476	4,019	4,912	98.50%	4,838
F	1,665	1,518	2,193	98.50%	2,160
G	560	463	771	98.50%	759
H	58	15	31	98.50%	31
	114,208	95,787	77,394		76,233
Adjustment for MOD Properties			833		833
<b>Tax Base Totals</b>			<b>78,227</b>		<b>77,066</b>

The Council Tax Base was calculated at the time the 2011/12 budget was set, based on the estimated number of properties and value of discounts applicable to each band at that time. The estimated income, allowing for non-collection, was £113.521m (77,066 x £1,473.04). In practice, however, the average number of properties and values of discounts vary from the estimates, and the actual income increased to £115.146m made up of £21.522m from Council Tax Benefits and £93.624m from Council Tax Payers.

### 2. Income Collectable from Business Ratepayers

National Non-Domestic Rates (NNDR) is organised on a national basis. The Government specifies an annual multiplier, which was 43.3p in 2011/12 (41.4p in 2010/11) and subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by the specified amount. A lower amount of 42.6p (40.7p in 2010/11) is applied to businesses with rateable values less than or equal to £17,999. The City Council collects rates due from the ratepayers in its area as an agent for the Government, paying the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to a local authority's General Fund as part of the settlement grant based on a fixed amount per head of population.

The NNDR income due, after reliefs and provisions, of £80.739m for 2011/12 (£75.949m in 2010/11) was based on a rateable value for the City Council's area of £226.949m for the year (£226.852m for 2010/11). The income is calculated as follows:

<u>NNDR Income</u>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Gross Debit (£214,617,851 x 43.3p for 2011/12)	89,200	92,930
Gross Debit (£12,331,002 x 42.6p for 2011/12)	4,637	5,253
Reliefs & Adjustments	(17,195)	(16,435)
Provision for Bad Debts	(693)	(1,009)
<b>Income Collectable from Business Ratepayers</b>	<b>75,949</b>	<b>80,739</b>

### 3. Precepts and Demands

The budgets of the City Council, Devon and Cornwall Police Authority and the Devon and Somerset Fire Authority are partly financed from the Council Tax. The sums required from Council Tax by the Council, Fire and Police Authorities are determined by each Authority as part of the budget process and are called demands (Council) and precepts (Fire and Police). The income from Council Tax payers is paid into the Collection Fund and payments are made by the Collection Fund for the demands and precepts due to the Council, Fire and Police Authorities.

### 4. Provisions for Non Payment of Council Tax

Contributions are made from the Collection Fund Income and Expenditure Account to an Allowance for Non-Collectability of Debt (Bad Debt Provision) Account. During 2011/12, £0.666m (£1.177m in 2010/11) was contributed to the Account and £0.635m (£0.657m in 2010/11) of irrecoverable debt was written off. Costs raised for debt recovery are also included in the Council Tax Allowance for Non-Collectability of Debt Account, with any costs paid in the year transferred to the General Fund to offset the cost of collection. The movement in the provision is as follows:

<u>Movement in Council Tax Allowance for Non-Collectability of Debt Account</u>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Balance brought forward	6,948	7,297
Contributions in year	1,938	1,380
Write Offs	(657)	(635)
<b>Paid costs transferred to General Fund (GF)</b>	<b>(932)</b>	<b>(607)</b>
Allowance for Non-Collectability of Debts @ 31st March	7,297	7,435
Costs included in provision made in year (met from GF)	761	714
<b>Net provision to the Allowance for Non-Collectability of Debt Account for Council Tax Arrears made in year</b>	<b>1,177</b>	<b>666</b>

The Bad Debt Provision is required to be apportioned between the 3 authorities in proportion to their precept/demand on the Collection Fund. The Police and Fire authority's proportion of the allowance for non-collectability for debt is £1.175m leaving a balance of £6.260m to cover Plymouth City Council's proportion of Council Tax arrears. The Police and Fire elements are shown in the Council's Balance Sheet as a debtor.

The total Collection Fund allowance for non-collectability of debt is £6.886m as shown in Note 18.3 on page 66. This includes an allowance for non-collectability of Community Charge of £0.627m.

### 5. Distribution of Collection Fund Surpluses and Deficits

The net accumulated surplus on the Collection Fund at 31 March 2012 amounts to £0.625 with £0.624m relating to Council Tax collection and £0.001m relating to Community Charge. This net surplus will be repaid to the City Council, Devon & Cornwall Police Authority and Devon & Somerset Fire Authority in 2012/13 and 2013/14 in proportion to each authority's demand/precept on the Collection Fund. A surplus of £0.071m had been forecast as part of the 2012/13 budget and Plymouth City Council's share of this, £0.060m, was taken into account when setting Council Tax levels for 2012/13. The excess surplus will be reviewed as part of setting the budget for 2013/14.



The £0.625m surplus is apportioned as follows:

	£000
Plymouth City Council	527
Devon and Cornwall Police Authority	67
Devon and Somerset Fire Authority	31
<b>Net Surplus</b>	<b>625</b>

The surplus attributable to the Police and Fire authorities is included within the Council's Balance Sheet as a net creditor. The surplus attributable to Plymouth City Council has been treated as a credit on the Collection Fund Adjustment Account.

## **GLOSSARY OF FINANCIAL TERMS**

### Accounting Policies

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or Balance Sheet it is to be presented. Accounting policies do not include estimation techniques.

### Accruals

The concept that income and expenditure is recognised as it is earned or incurred, not as money is received or paid.

### Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

### Actuary

An expert on long term pension scheme assets and liabilities. Actuaries make recommendations every 3 years regarding the rate of employer contributions due to the LG pension scheme.

### Amortisation

The writing down of a balance in the accounts over a specified period to signify the 'using up' of the benefit to the Authority of the expenditure or income. For example assets might be written down over the number of years it is intended to use the asset.

### Amortised Cost

Amortised cost (in relation to Financial Instruments) is the carrying amount on initial recognition plus the interest taken to Income and Expenditure less cash paid or received for both interest and principal.

### Assets under Construction

The Capital Programme is a rolling programme, which means that all projects started in the financial year are not necessarily completed within the financial year. The Authority does not recognise an asset as a fixed asset until financial completion. Until then these are classified separately as Assets under Construction.

### Associate

For the purpose of the group accounts, an associate is an organisation in which the Council has an interest by way of an investment and is able to exercise significant influence, but not total control, usually determined by voting rights held by the Council on relevant Boards. A group will be classified as an associate if voting rights are less than 50% but more than 20%.

### Balance Sheet

The accounting statement, which sets out the Authority's total net assets and how they were financed.

### Business Improvement District (BID)

The Plymouth Business Improvement District (BID) is a precisely defined geographical area of Plymouth City Centre. Businesses in this BID area have voted to invest collectively in local improvements to enhance their commercial environment. The purpose of the BID is to provide new or expanded works, services and environmental enhancements, funded by a BID levy charge which is payable by all business rate payers in the BID area, collected by Plymouth City Council and is ring-fenced.

### Budget

A statement of the Authority's plans for net revenue expenditure over a specified time period.

### Capital Adjustment Account

This account contains the amounts to be set aside to repay debt and the amount of capital expenditure financed from capital receipts and revenue. It also contains the difference between the amounts provided for depreciation, the amount of minimum revenue provision, amounts of Government grants amortised and revaluations prior to 1 April 2007.

### Capital Charge

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

### Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, that adds to and not merely maintains the value of an existing fixed asset. The benefit to the Authority of such expenditure is generally greater than one year.

### Capital Programme

The Council's plan of capital projects and spending over future years. Included in this category are the purchase of land and buildings, the erection of new buildings and works, design fees and the acquisition of vehicles, plant and major items of equipment, as well as support to other organisations/residents for works of a capital nature.

### Capital Receipts

Income from the sale of land and buildings or other assets and loan repayments. Capital Receipts can only be used to finance other capital expenditure or to repay outstanding debt on assets financed from borrowing. In addition, a proportion of HRA capital receipts must be paid over to Central Government for redistribution via a 'pooling' arrangement.

### Capitalisation Direction

An Authority can apply to the Secretary of State for a Capitalisation Direction, which is an approval to allow certain revenue items to be funded from capital resources, usually borrowing or capital receipts.

### Cash Flow Statement

Summarises the inflows and outflows of cash arising from transactions with third parties for capital and revenue purposes.

### CIPFA

The Chartered Institute of Public Finance and Accountancy (CIPFA) is the leading accountancy body for the public sector. The Statement of Accounts is prepared in accordance with the codes of practice published by CIPFA.

### Collection Fund

This is a separate statutory fund, which details the transactions in relation to national Non-Domestic Rates (NNDR) and the Council Tax, and the distribution to preceptors and the General Fund. It is consolidated with the other accounts in the Consolidated Balance Sheet.

### Community Assets

Assets that the local authority intends to hold in perpetuity, that have no determinable and useful life (where useful life is defined as a period of time over which the Authority benefits from the use of the asset) and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

### Componentisation

An asset may consist of several different and significant physical components e.g. separating the operating fixtures from the actual building itself. If these components have substantially different lives then each component is depreciated separately over its individual useful life.

### Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next one is the same.

### Contingent Asset

A contingent asset is a possible asset arising from a past event from which the Council may benefit, and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

### Contingent Liability

A contingent liability is either a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's

control, or a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

#### Corporate and Democratic Core (CDC)

The Corporate and Democratic Core represents the cost of the authority's Corporate Management (CM) and Democratic Representation and Management (DRM).

CM – those activities and costs that provide the infrastructure that allows services to be provided, whether by the authority or not and the information required for public accountability.

DRM - This includes all aspects of members' activities in that capacity, including corporate, programme and service policy making and more general activities relating to governance and the representation of local interests.

#### Council Tax

A local taxation based on historic property valuations resulting in various banded charges chargeable on a property basis, collected via the local authority and used in conjunction with other revenue income streams (Revenue Support Grant) to fund local revenue expenditure.

#### Creditors

Amounts owed by the Council for goods and services provided for which payment has not been made at the end of the financial year.

#### Current Assets and Liabilities

Current assets are amounts owed to the Council and due for payment within 12 months, or items that can readily be converted into cash. Current liabilities are amounts that the Council owes to others and are due to be paid within 12 months.

#### Current Service Cost (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

#### Debtors

Amounts owed to the Council at 31 March where services have been delivered but payment has not been received.

#### Dedicated Schools Grant (DSG)

A ring fenced grant given to Local Authorities to meet expenditure directly incurred by schools and or held centrally to meet schools related expenditure.

#### Deferred Liabilities

Money owed by the Council which by arrangement are payable beyond the next year at some point in the future or paid off by annual sum over a period of time. Most deferred liabilities relate to PFI or lease arrangements.

#### De-Minimus Capital Expenditure

This is the term given to items of capital expenditure below a certain value that may be properly capitalised by local authorities (i.e. meets the statutory definition of Capital Expenditure) but where the authority has chosen not to add to its asset register. De-minimus capital expenditure is charged to the relevant revenue account in the year it is incurred.

#### Depreciation

The measure of cost or revalued amount of an asset assumed to have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of the asset whether arising from use, passing of time or obsolescence through either changes in technology, or demand for the goods and services produced by the asset.

#### Derecognition

The term used for the removal of an asset or liability from the Balance Sheet.

### Direct Revenue Financing

The amount of capital expenditure financed directly from revenue, rather than loans or other capital funds.

### Effective Interest Rate (financial instruments)

The rate of interest that is necessary to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument.

### Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately, by virtue of their size or incidence, to give fair presentation of the accounts.

### Fair value (financial instruments)

The amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

### Fair value (Fixed Assets)

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. Depending on the asset, this could be interpreted to mean existing use value (EUV) or market value.

### Financial instrument

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The definition covers treasury management activity, including borrowing and lending of money and the making of investments. It also covers things such as receivables (debtors), payables (creditors) and financial guarantees.

### Financial instrument Adjustment Account

The reserve records the accumulated difference between the financing costs included in the Comprehensive income and Expenditure Account and the accumulated financing cost required in accordance with regulations to be charged to the General Fund Balance.

### General Fund

The main revenue fund from which day-to-day spending on services is met.

### General Fund Working Balances

The accumulated surplus of income over expenditure. The General Fund working Balance can be used to support future years budgets and thereby reduce future Council Tax increases.

### Government Grants

Sums of money paid by Government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority. Government grants fall into two categories; general (where the authority has discretion over their use), or specific (where they must be used for certain items of expenditure under the conditions of the grant).

### Heritage Assets

A Heritage Asset is one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained by the Council principally for its contribution to knowledge and culture. Heritage Assets can be either tangible or intangible in nature.

### Housing Revenue Account (HRA)

This is a statutory account maintained separately from General Fund services. It includes all revenue expenditure and income relating to the provision, maintenance and administration of Council Housing and associated areas. The Council closed the HRA on 31 March 2011 following the transfer of its housing stock to Plymouth Community Homes.

### Impairment

This is the term used to describe a reduction in the value of a fixed asset mainly due to a significant decline in its market value or evidence of obsolescence or physical damage.

### Impairment Review

A review undertaken annually by the Council to assess whether there has been any impairment to its asset or asset value in the period.

### Infrastructure Assets

Fixed assets that by their very nature cannot be sold and therefore expenditure can only be recoverable by continued use of the asset created, e.g. coastal defences, highways and footpaths.

### Intangible Assets

Non-financial assets which do not have physical substance but are identified and controlled by the Council through legal rights e.g. IT software.

### Inventories (stocks and work in progress)

Comprise the following categories, goods or other assets purchased for resale, consumable stores, raw materials and components purchased for incorporation into products for sale, products and services in intermediate stages of completion, long term contract balances and finished goods.

### Investments

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria should be classed as current assets.

### Joint Ventures

For the purpose of group accounts, a joint venture is an organisation in which the Council has an interest and is able to exercise significant influence but only with the unanimous agreement of the other parties with an interest in the organisation.

### Landfill Allowance Trading Scheme (LATS)

The Landfill Allowance Trading Scheme began on 1 April 2005, and is a system of tradable permits that has been introduced in England to reduce the amount of Biodegradable Municipal Waste (BMW) sent to landfill. Each Waste Disposal Authority is allocated permits that allow it to landfill BMW up to the number of permits it holds. Authorities can purchase more permits or pay a fine in order to landfill BMW above their permits, or can sell excess permits to other Waste Disposal Authorities.

### Lease

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not be eventually transferred to the lessee. An operating lease is a lease other than a finance lease.

### Lenders Option Borrowers Option Loans (LOBOs)

Lenders Option Borrowers Option Loans (LOBOs) are loans where, after an initial period of fixed interest, and at agreed intervals thereafter, the lender has the option to increase the rate. The borrower then has the option to continue at the higher rate or repay the loan incurring no penalty.

### Loans Outstanding

Amounts borrowed to finance capital expenditure which is yet to be repaid.

### Local Government Reorganisation (LGR)

The 1997/98 change of local government boundaries resulted in the creation of Unitary Authorities. Plymouth City Council became a unitary authority on 1 April 1998, taking over services within the city, which were previously administered by Devon County Council (the two main services being Education and Social Services). There are some ongoing transactions between the two authorities, for Plymouth's share of liabilities pre-dating the 1 April 1998, including enhanced pension payments.

### Market Value

A method of valuing a fixed asset in relation to current market conditions.

### Minimum Revenue Provision (MRP)

Represents the statutory minimum amount that must be charged to a revenue account in each financial year to repay external borrowings.

### National Non-Domestic Rates (NNDR)

Local businesses are subject to a business tax, referred to as the National Non-Domestic Rate. Poundage is set annually by the Government, collected by local authorities and paid into a national pool. The proceeds are then redistributed by Central Government as a grant to authorities in accordance with a government formula.

### Net Book Value

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

### Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

### Non Current Assets

Expenditure that yields benefits for a period of more than one year.

### Non Distributed Costs (NDC)

This is a service heading within the Income and Expenditure Account, which bears costs, which would otherwise distort the cost of the frontline services. CIPFA dictates what can be charged to NDC as follows past service costs, settlements, curtailments in relation to pension costs, costs associated with unused shares of IT facilities, cost of shares of other long term unused but unrealisable assets.

### Non-Operational Assets

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

### Operational Assets

Fixed assets held, occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility, or for the service or strategic objectives of the authority.

### Out-turn

The final actual expenditure and income in a given period.

### Pension Interest Costs

The amount needed to unwind the discount applied when calculating the current service cost. As scheme members are one year older and one year closer to receiving their pension, the provision made at present value in previous year need to be uplifted by a year's discount to keep pace with current values.

### Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.

### Precept

The amount of Council Tax income required by precepting authorities (see below) to provide their services. It is levied on Council Tax billing authorities, who are required to collect income from Council Taxpayers on their behalf.

#### Precepting Authority

An authority that sets a precept to be collected by a billing authority. Plymouth City Council collects precepts on behalf of Devon and Cornwall Police Authority and Devon and Somerset Fire Authority.

#### Prior Year Adjustments

Those material adjustments, applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

#### Private Finance Initiative (PFI)

PFI is a generic term used to describe a wide variety of arrangements under which assets and services are provided by the private sector and paid for by the Council under a long term performance related contract.

#### Provisions

Sums of money set aside from revenue accounts to meet any liabilities or losses which are likely to be incurred, or will be incurred, but the amount or the dates on which they will arise is uncertain. The Authority's main provisions are maintained for bad debts and insurance purposes.

#### Prudence

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

#### Prudential Code

This refers to the CIPFA Prudential Code for Capital Finance in Local Authorities which outlines the guidance applicable from 1 April 2004 for the greater freedom for Councils to borrow to fund capital investment (under the Local Government Acts 2003), subject to compliance with the Code.

#### Public Works Loans Board

Public Works Loans Board (PWLB) - a statutory body operating within the United Kingdom, which provides long term loans to Local Authorities.

#### Related Party

A third party involved with the Council where they are able to exert influence or control over the Council or are subject to influence or control by the Council.

#### Related Party Transactions

The transfer of assets or liabilities, or the provision of services to or for a related party, irrespective of whether a charge is made.

#### Reserves

Sums of money set aside to meet general or specific future liabilities.

#### Revaluation Reserve

The Revaluation Reserve is an unusable reserve which contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment which have not yet been realised through sales. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

#### Revenue Account

An account that records an authority's day to day expenditure and income on such items as salaries and wages, running costs of services and the financing of capital expenditure.

#### Revenue Expenditure

Spending on day to day expenses consisting mainly of employees, running costs of buildings and equipment and capital financing costs.



#### Revenue Support Grant

A general grant from the Government received by the authority calculated by reference to a complex formula to support the delivery of the authority's services.

#### Right to Buy (RTB)

A scheme whereby Ex-Council tenants are allowed to purchase their own homes (relates to housing stock transferred to Plymouth Community Homes).

#### Section 106 Receipts

Contributions from developers towards mitigating the effects of a development. These contributions may be, e.g. for additional education provision, playgrounds or transport infrastructure.

#### Section 151 Officer

The Council's Officer designated under section 151 of the Local Government Act 1972 to take overall responsibility for the financial administration of the local authority. In Plymouth this is the Director for Corporate Services.

#### Specific Grants

Central Government grants towards specific services, usually calculated on a fixed percentage basis, for particular services.

#### Soft Loan

A soft loan arises where an authority makes a loan to another entity at less than the prevailing rate of interest, where a service objective would justify the authority making a concession.

#### Subsidiary

For the purpose of Group Accounts, a subsidiary is an organisation over which the Council is able to exercise control in respect of its operating and financial policies, and from which the Council is able to gain benefits or is exposed to the risk of potential losses.

#### Temporary Borrowing

Borrowing for a temporary purpose, for a period of usually less than 1 month, usually to cover cash flow.

#### Useful Life

The period over which the local authority will derive benefits from the use of an asset.



**Finance, Efficiencies,  
Technology and Assets**

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Please ask for: Adam Broome

Date 27<sup>th</sup> September 2012

My Ref ACCT/CF

Your Ref

Dear Mr Morris

**Plymouth City Council  
Financial Statements for the Year Ended 31 March 2012**

This representation letter is provided in connection with the audit of the financial statements of Plymouth City Council for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular, the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- v. We are satisfied that the material judgments used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgments that need to be disclosed.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded)
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code
- viii. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- ix. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- x. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements
- xi. Except as stated in the financial statements:
  - a – there are no unrecorded liabilities, actual or contingent; and
  - b- none of the assets of the Council have been assigned, pledged or mortgaged.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements
- xiii. We have not adjusted the following misstatements and items brought to our attention on the audit differences and adjustments summary, attached to this letter, for the reasons noted below:

Impairment of Icelandic Bank Investments

The Council has not followed the LAAP guidance in relation to the impairment of Icelandic Bank Investments. For 2011/12, consistent with previous years treatment, the Council has used a prudent approach in calculating the impairment adjustment within the accounts due to the continued uncertainty over the level of future recovery. The LAAP guidance assumes collection rates of 86%, 100% and 100% for the recoveries for Heritable, Landsbanki and Glitnir respectively. There continues to be uncertainty, however, over whether these levels of recovery will be achieved and therefore impairments have been made in line with actual receipts rather than those anticipated. Officers will continue to monitor the recovery during 2012/13 and make appropriate judgements in terms of the accounting entries accordingly.

Pre-2000 Council Tax Debt write off

It was agreed as a result of last year's audit that the Council would write off the pre-2000 Council Tax Debt that had already been provided for within the accounts.

However, the Council continues to receive some payments in relation to this debt, and have agreed that they will revise the outstanding figure once this information is known and write out the debt in 2012/13.

The financial statements are free of material misstatements, including omissions.

**Information Provided**

- xiv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- xv. 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.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware
- xvii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements
- xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxi. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware

- xxiv. We have disclosed to you all known, actual or possible litigation and claims whose effects should be considered when preparing the financial statements
- xxv. We believe that the restated amounts for the inclusion of the Tamar Bridge and Torpoint Ferry balances and the restated amounts for the adoption of Heritage Assets are correct.

### **Other Statements**

- xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

### **Approval**

The approval of this letter of representation was minuted by the Council at its Audit Committee meeting on 27 September 2012.

Signed on behalf of Plymouth City Council

Adam Broome  
Director for Corporate Services  
Date 27 September 2012

Cllr G Wheeler  
Chair of Audit Committee  
Date 27 September 2012

## Unprocessed adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	£3,467	<b>Icelandic Banks</b>	Investment balances would increase £3.467m CIES reversal of impairment (loss) £3.467m Associated entries in in the MIRS and CAA.
Write off of debt	£4,700	<b>Bad debt provision – Council Tax</b>	Disclosure note outlining the bad debt provision and details of the Council Tax debt.