**PLYMOUTH CITY COUNCIL**

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|---|---|
| **Subject:** | Statement of Accounts 2015/16 |
| **Committee:** | Audit Committee |
| **Date:** | 30 June 2016 |
| **Cabinet Member:** | Councillor Darcy |
| **CMT Member:** | Andrew Hardingham (Assistant Director for Finance) |
| **Author:** | Chris Flower (Lead Accountant, Capital and Treasury Management) |
| **Contact details** | Tel: 01752 304212<br>Email: chris.flower@plymouth.gov.uk |
| **Ref:** | FIN/CF |
| **Key Decision:** | No |
| **Part:** | I |

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**Purpose of the report:**

This report sets out the timetable and key issues in relation to the production of the statutory form of accounts – the 'Statement of Accounts', which the Council is required to produce for audit and publication, and reports on progress towards the requirement to prepare the pre-audited accounts by the 30 June 2016.

The Accounts and Audit Regulations require that the accounts are available for public inspection for six weeks and this year the period of inspection commences on the 30 June 2016. The external audit commenced on 15 June 2016.

The report also details progress towards completion of the action plan agreed to implement the recommendations made by the auditor following the completion of the 2013/14 audit.

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**The Co-corporative Council Corporate Plan 2013/14-2016/17:**

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 2015/16 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 and Risk Management:**

N/A

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**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

## 1) Recommendations and Reasons for recommended action:

1. Audit Committee note the report and the 'authorised for issue' date (1 June 2016) for the draft Statement of Accounts.

**Alternative options considered and rejected:**

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

**Published work / information:**

None

**Background papers: None**

None

**Sign off:**

<table>
<tr><td>Fin</td><td>djn161<br>7.11</td><td>Leg</td><td>lt259<br>86</td><td>Mon<br>Off</td><td>DV<br>S25<br>897</td><td>HR</td><td></td><td>Assets</td><td></td><td>IT</td><td></td><td>Strat<br>Proc</td><td></td></tr>
<tr><td colspan="14">Originating SMT Member – Andrew Hardingham</td></tr>
<tr><td colspan="14">Has the Cabinet Member(s) agreed the contents of the report? Yes</td></tr>
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**Statement of Accounts 2014/15**

## 1. Introduction

1.1 This report sets out the timetable and key issues in relation to the production of the statutory form of accounts – the 'Statement of Accounts', which the Council is required to produce for audit and publication.

1.2 The Accounts have to be produced in line with the relevant CIPFA Codes of Practice and with regard to relevant items of statute. Details of the changes in relation to the 2015/16 Codes and relevant legislation which need to be considered for the accounts are outlined in section 3.

1.3 The Accounts and Audit Regulations require that the draft Statement of Accounts is signed by the Council's Section 151 Officer by 30 June each year. Progress towards the production of the pre-audit accounts is outlined in section 2 of this report. The pre-audited accounts will be published on the Council's website by the end of June.

1.4 Formal audit of the accounts for 2015/16 commenced on 15 June. The 30 working days period in which the Council has to make the draft accounts available for public inspection starts on 30 June. The audited Accounts will be presented to the next committee alongside the auditor's report. An analysis of the financial position and key messages within the accounts will be reported to committee in the accompanying report as it is not possible to do so at this stage whilst the draft accounts are still being finalised.

1.5 The Code requires that the Council sets and discloses an 'authorised for issue' date, which reflects a cut-off date in terms of the post balance sheet period within which events have to be considered in relation to their impact on the 2015/16 accounts. The relevant date for the draft Statement of Accounts has been set as 1 June 2016.

1.6 The report also contains the Narrative Report to the Statement of Accounts (**Appendix A**). The narrative aims to provide a comprehensive, informative, stakeholder guide to establishing the Council's financial position and its net worth. Through the report the Council is able to demonstrate it has a secure and sustainable financial standing and has fulfilled its stewardship function for all of the public money entrusted to it in a cost effective and appropriate manner.

1.7 Each year the Audit Committee receives the auditor's (ISA260) report on the accounts audit, which, where appropriate, will include an action plan containing issues for the Council to address for the following year's accounts. Progress against auditor recommendations resulting from the 2014/15 financial audit is detailed in Section 6 and **Appendix B.**

1.8 The Annual Governance Statement (AGS) is being presented separately to this Audit Committee for approval. The AGS no longer forms part of the published Statement of Accounts document but would stand-alone to reflect that its scope is wider than just the financial transactions of the authority. However, it will be published alongside the Statement of Accounts on the Council's website as is required by the Code.

## 2. Key Dates for 2015/16 and progress to date

2.1 Although there has been no change to the statutory timetable relating to the production and publication of the final accounts, internal deadlines and targets have been set which reflect earlier timescales for both the reporting of departmental financial results against budgets and the production of the draft Statement of Accounts.

2.2 The financial challenges that the authority is facing make it imperative that both Officers and Members are provided with accurate and up-to-date financial information in a timely manner in order to facilitate informed decision-making. The timetable for monthly budget monitoring reporting has been shortened over the past year in order to allow finances to be controlled and achievement of budget delivery plans to be closely monitored.

2.3 There are other drivers which give rise to the decision to reduce the overall timetable for the production of the draft Statement of Accounts document. Firstly, there is a need to continuously review and improve financial management processes; a shorter timescale will both challenge current working practices and promote efficiencies. In addition, timelier completion of year-end activities will free up resources for other work at an earlier stage of the year. Other advantages which arise include cost effectiveness, staff benefits (such as improved morale via a sense of achievement and opportunities to develop the technical expertise within the service) and an enhanced profile for the Finance Service.

2.4 However, there is a risk that a faster timescale could compromise the quality of the draft statements. The Finance team are working to minimise the likelihood of this having a detrimental impact on the accounts by ensuring that progress is closely managed, staff involved are appropriately trained and there is close liaison with the external auditor throughout the year.

2.5 The year-end timetable for both internal and external reporting (via the Statement of Accounts) of the 2015/16 financial results has been set as follows:-

| Milestone | Key Date |
|---|---|
| Provisional Outturn report to CMT | 15 April |
| Draft Outturn Report to Cabinet Members | 3 May |
| Draft Statement of Accounts prepared | 15 June |
| Final Accounts Audit Commences | 15 June |
| Statutory deadline for Section 151 Officer to 'sign off' of draft Statement of Accounts | 30 June |
| | |
| Period of Public Inspection | 30 June –10 August |
| Auditor's ISA260 report received and audited Statement of Accounts approved by Audit Committee | 15 September |
| Statutory deadline for Section 151 Officer and Audit Committee to approve the audited Statement of Accounts | 30 Sept |

2.6 As the agenda for this committee was published, the Finance team were finalising the draft Statement of Accounts for review by Senior Management. We are on course to have the work on the accounts completed by the 15 June deadline, but Officers will provide a verbal update on progress at the meeting.

2.7 The achievement of this deadline has always partly been reliant on receiving finalised accounts in relation to the Tamar Bridge and Torpoint Ferry Joint Committee (TBTFJC) from Cornwall Council. Cornwall Council has also brought forward the preparation of their accounts and has provided the Council with the (TBTFJC) accounts in time to include them in the draft accounts. This year we have also had to consider the timelines for Delt and CaterEd and the Energy from Waste Partnership.

2.8 The Finance team will continue to strive to further improve the above timescales, with the ultimate aim of delivering the draft Statement of Accounts by the end of May. This is reflected with a workstream within the Finance Fit programme. This will involve further work on challenging current working practices and timelines, refining quality assurance techniques and widening both project management and technical expertise throughout the service.

2.9 The Code requires that events occurring after the balance sheet date, i.e. 31 March 2016, are considered in terms of their relevance to the Council's financial position for 2015/16. There is an obligation to ensure that any such events are properly reflected in the Statement of Accounts up to the date that the statement is 'authorised for issue' – the authorised for issue date.. The authorised for issue date marks the point beyond which there can be no reasonable expectation that events could have been taken into consideration in the preparation of the Statement of Accounts. The Council has to disclose this date within the accounts and it has been decided that post balance sheet events up to and including the 1 June 2016 be considered for the draft accounts submitted for audit.

## 3. The 2015/16 Codes of Practice and relevant legislation

3.1 CIPFA publish the Codes of Practice on an annual basis and the main change that is relevant to the production of the Statement of Accounts is the implementation of IFRS 13 Fair Value Measurement.

IFRS 13 Code impact:

- Fair value (FV) is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- Non-financial assets measured at 'highest and best use'.
- The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring FV.
- Potentially onerous disclosures.
- Operational PPE measured at service potential (current value) –no change in measurement requirements.
- Surplus assets measured for their economic benefits at FV under IFRS 13 from 2015/16.
- Investment properties –highest and best use.
- Liabilities –best transfer price.

## 4. Post Balance Sheet Events (PBSE)

4.1 Although the Statement of Accounts shows the financial outturn position for 2015/16 and Balance Sheet position as at 31 March 2016, the Council is required to take into account items occurring after 31 March 2016 if they would have a material impact on the accounts.

4.2 No post balance sheet events have been identified to date or included in the draft Statement of Accounts.

As the draft accounts were still being finalised at the time of publishing this report, it may not reflect the final PBSE position when the accounts are published at the end of June.

## 5. Progress against the 2014/15 ISA260 Report Action Plan

5.1 The External Auditor's annual Governance Report (ISA260 Report), includes the findings on the annual accounts audit and an action plan to address key audit issues. **Appendix B** sets out the auditor's recommendations following the 2014/15 accounts audit and reports on the progress made to date regarding the related action plan.

5.2 Three issues were reported in the action plan:-

5.2.1 Once the draft financial statements have been prepared, no amendments should be made until the audit has been completed. This has been agreed and is in place for the 2015/16 audit.

5.2.2 The Council should introduce a sample-based approach to journal review and authorisation, covering all journals._This has been implemented and full details of both internal audit testing and the finance department's own controlled are detailed in **Appendix B.**

5.2.3 Information Security Policies should be reviewed at planned intervals or when significant changes occur to ensure their continued suitability, adequacy and effectiveness.

## 6 Conclusions

6.1 Work is in-hand to produce the draft Statement of Account well in advance of the statutory deadline and this also represents a year on year reduction in timescales taken to undertake this year-end work. The Finance team has committed to making further improvements going forward by including a project to review working practices and expertise in this area within the 2015/16 Finance Fit programme.

6.2 The annual external audit is being carried out by our new auditors BDO and it commenced 15 June 2016; the period of public inspection of the accounts commences on 30 June 2016. The audited Statement of Accounts will be submitted to Audit Committee for approval at the 15 September meeting.

6.3 Officers are working to ensure that the auditor's action plan resulting from the 2014/15 final accounts audit is addressed where applicable.

**APPENDIX A**

# Narrative Statement for the Statement of Accounts 2015/16

## Introduction and Background

Plymouth City Council is a unitary local authority responsible for all local services including transport, social care and education. Plymouth is the largest port city on the South coast with a resident population of 261,000 plus 100,000 transient workforce in the travel to work area. It is home to the largest naval base in Western Europe, HMNB Devonport and has the highest concentration of manufacturing and engineering employment in the whole of the South of England. 20% of the UK's blue - tech/marine companies are based here. The Council's vision for Plymouth is to become one of Europe's most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone.

The Council plans to increase its resident population to 300,000 by 2018.  This will put additional pressure on refuse collection, street cleaning, schooling and social care, both children's and adults'. Plymouth's growth is core to the corporate agenda. Council-owned land has been released for building new homes together with associated additional shopping and outdoor recreational facilities. The Council is committed to improved schooling and also in the longer term to improve Plymouth's road, rail and air transport links whilst reducing carbon emissions by 50%. The first phase of the Council's regeneration programme of the city centre, the waterfront, and the Northern and Eastern Corridor is well under way.

In very difficult financial circumstances we continue to retain and improve our core services. For example during 2015/16 we:

- Collected glass for recycling from homes across Plymouth every fortnight
- Maintained our roads; 23,342 potholes and 220,962 sq m of road were repaired last year
- Attracted 740,000 people to our Libraries
- Served up 2.5m nutritious school meals through our co-operative trading company
- Prevented more than 1,242 families from becoming homeless
- Worked with more than 5,500 children in need

The scale of the reduction in government funding over the years and the magnitude of the financial challenges facing the Council has meant that we have had to radically rethink the way we work and deliver services. We believe that we can do this by:

- taking a more commercial approach to the way we commission and run services
- making the best use of council assets
- investing in and accelerating Plymouth's economic growth,

we will also reduce cost and generate additional income from business rates with the net benefit of £23m to be realised in 2016/17.

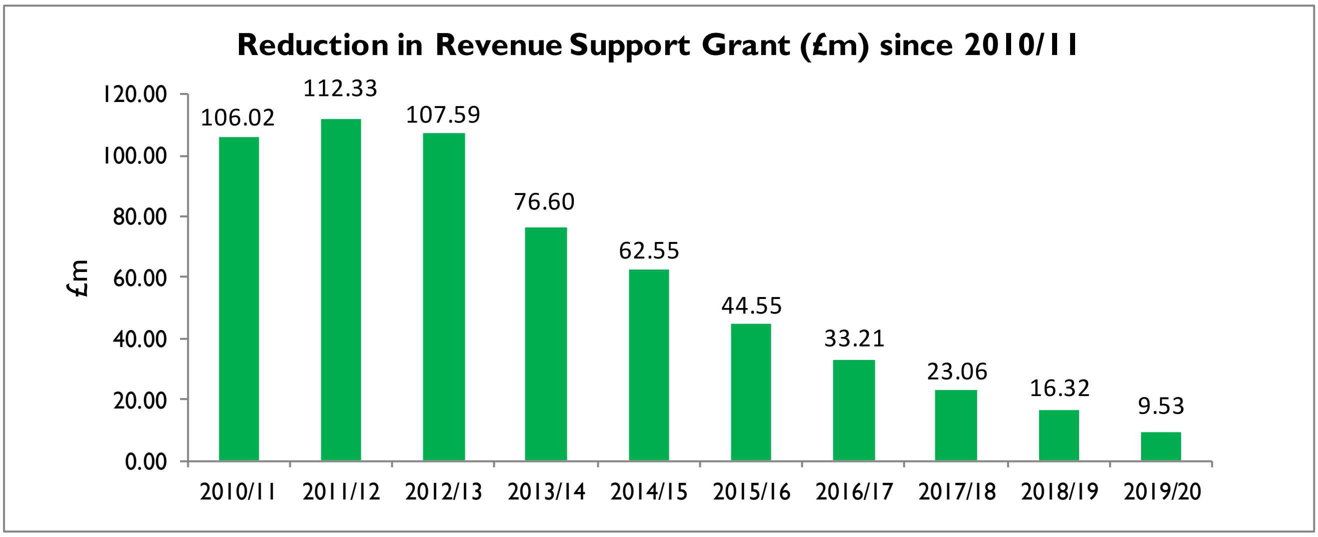
## Financial Performance

I welcome this opportunity to report the Council's financial performance for 2015/16. My narrative report is not formally part of the annual Statement of

Accounts. It is not covered by the audit opinion or my official certification but does supplement the Statement of Accounts by offering interested parties an easily understandable guide to the most significant matters reported in the accounts. The production of this report marks my first year at Plymouth City Council, having started at the end of May 2015. This narrative brings together information from various key documents which have been published throughout the year. The Statement of Accounts, taken as a whole, provides a comprehensive and informative stakeholder guide to establishing the Council's financial position and its net worth. In this document the Council demonstrates that it has a secure and sustainable financial standing. It has fulfilled its stewardship function for all of the public money entrusted to it in a cost effective and appropriate manner.

Since 2010, revenue funding for local government has been continually reducing and will continue to reduce for the foreseeable future, changing the make-up of the core funding as we go forward. Funding will change with government

- placing greater emphasis on councils generating additional revenue locally by attracting more businesses to the city and building more homes
- moving to 100% rates retention by 2019/20
- Introducing the Adult Social Care 2% council tax precept.




There was a drop of £18m in central government funding in 2015/16. The Council remains committed to protecting and investing in essential front line services aimed at early intervention, tackling the city's health inequalities and integrating social care with health. We are working with our partners to take a joined up preventative approach to improving the health of our residents and hence reduce demand for high cost services. Plymouth's approach to integrated health and social care service, with a clear focus on preventative and enabling services, wrapped around the combined needs of the client, is believed to be the first of its kind in the country.

The overall outturn position is a saving of £0.032m against our gross budget of £534.639m.This is testament to the strong financial management and discipline across all areas of the Council. This puts the Council in a very strong position going into the even more financially challenging 2016/17.

Given the size of the financial challenge faced for 2015/16, with a total savings target of £21.5m, balancing the budget is a major achievement for the Council. Balancing the budget without the need for a major drawdown against our financial reserves provides us with a strong foundation to address the challenges ahead.

## OUTTURN POSITION 2015/16– A SUMMARY

1. The Council's budget outturn position and Annual Report 2015/16 can be accessed by clicking the web links. These reports explain how the Council's priorities have been delivered over 2015/16 and also its plans for 2016/17.

2. The Council operated in 2015/16 with a net budget requirement of £193.009m.

The table below summarises by Directorate the budget outturn position as compared against the net budget requirement:

| Directorate | Note Ref. No. | Budget 2015/16 | Budget Outturn | Year End Overspend / (underspend) |
|---|---|---|---|---|
| | | £m | £m | £m |
| People | 1 | 123.233 | 123.482 | 0.249 |
| Place | 2 | 23.923 | 24.260 | 0.337 |
| Office of Director of Public Health | 3 | 1.007 | 0.689 | (0.318) |
| Transformation & Change | 4 | 33.074 | 35.496 | 2.422 |
| Chief Executive's Office | 5 | 3.899 | 3.953 | .054 |
| Corporate Items | 6 | 7.873 | 5.097 | (2.776) |
| **Total** | | **193.009** | **192.977** | **(0.032)** |
| Funded by: | | | | |
| Council Tax | | 90.410 | | |
| Business Rates Retained | | 58.049 | | |
| Central Government Grant Settlement | | 44.550 | | |
| **Total** | | **193.009** | | |

In 2015/16 we have been able to use one-off savings from our revised Minimum Revenue Provision (MRP) policy, and this is the first year of our pioneering Section 75 Agreement with the NHS Northern, Eastern, Western Clinical Commissioning Group (N.E.W. CCG). Working with our health partners and our revised budget setting process which reflects both cost and volume pressures for our social care budgets, 2015/16 is the first year we have recorded an underspend for our Adult Social Care provision in the past six years. With increasing client numbers linked to people living longer, there is even more need to join in partnership with colleagues from health to place our combined limited funding into preventative work, supporting people to live healthy lifestyles within the community.

Within the strained financial climate, the Council has set out its future direction in its Corporate Plan which clearly lays out the objectives, outcomes and values that the Council is committed to whilst driving down spend and maximising income in order to balance the books. The plan contains ambitious objectives around the themes of Pioneering, Growing, Caring and Confident Plymouth.

There are risks with any budget, particularly given the scale of the funding reductions. However, as a Council, we have every confidence that we will succeed in delivering these savings, and emerge in a strong position to take on the next set of financial challenges.

## Budget Outturn Variance Analysis

You can see from the table above (reference no. 7.) that overall there was a slight net underspend of £0.032m. Directorate variances are explained in notes 1.to 6.) as follows:

i) **The People Directorate** net overspend of £0.160m was as a result of:

a) £0.652m additional costs related to placement pressures on the Children, Young People and Families' budget. There are have been a number of factors that have contributed to this position including

   i. a lack of availability of the right in-house foster care placements creating overuse of IFA's;
   ii. high number of placements in Welfare Secure, with 5 placements in year;
   iii. unexpected court ordered spends on Parent and Child Assessment placements;
   iv. a small number of individual packages of care at considerably higher cost due to the needs of the young person;
   v. there are currently 105 Independent Foster Care (IFA's) placements with budget for only 68.

This is offset by:

b) £0.470m net favourable variance in Strategic Co-operative Commissioning. This is the first favourable outturn for six years and management actions to contain spend included measures around sign off of spend by Senior Management before approving care packages, reviewing contracts and a further review of high cost packages. Given the closedown timetable, both PCC and N.E.W. CCG agreed to formalise the financial position for the Plymouth Integrated Fund as at February 2016. We have therefore closed the books with the risk share for 2015/16 being a transfer to PCC of £0.089m. With the month 12 figures now available the final position is a risk share of £0.039m with the movement to be reflected in next year's accounts.

ii) **The Place Directorate** net overspend of £0.337m was as a result of

a) £1.0m in year under achievement of various GAME income targets including £0.300m commercialisation projects and £0.420m passenger transport.

b) £0.174m net savings in Street services resulting from highways maintenance linked to mild winter and savings in waste disposal costs offset by increased costs created by the re-procurement of the highways maintenance contract.

c) Throughout the year Strategic Planning and Infrastructure (SPI) has taken a proactive approach to budget management. Of the overall saving of £0.476m, £0.325m relates to concessionary fares, which are affected by a variety of issues beyond direct control with the overall position only becoming clearer near year end.

iii) **The Office of Director of Public Health** ended the year with an overall underspend of £0.318m. Although Public Health came in as a balanced budget within the ring fenced grant, the directorate also covers the Public Protection Service which underspent by £0.297m due to a mixture of additional income and deferred spending on IT and other equipment, and the Civil Protection Unit had an underspend of £0.021m

iv) **The Transformation and Change Directorate** has a range of service areas reporting an underspend mainly as a result of an Enhanced Voluntary Release Scheme being offered and completing service reviews across the Directorate. Despite this the overall position is showing an overspend of £2.423m; this is predominately due to:

a) the review of the Delt contract that took place in November 2015 which resulted in additional funds of £1.400m being allocated to ensure that the Council's IT requirements are resourced at the appropriate level going forward.

b) Legacy delays in Cooperative Centre of Operations (CCO) projects, now merged with People and Organisational Development (POD), have had an impact on benefits achievable in year.

c) Additional Delt income from new customers has been shown to be unrealistic in terms of timescale and quantity. However, in many areas we have been able to offset the savings shortfalls with one off in-year savings such as vacancy savings and additional income.

d) The Customer Services Transformation (CST) programme achieved in full its benefits target of £1.356m.

e) The Transformation Programme contributed a saving of £0.577m. During the year we were able to reduce our requirement for external consultants due to increased internal knowledge; this together with other staff savings, such as unfilled vacancies, contributed to this overall saving.

v) **The Executive Office** overspend of £0.053m relates to underachievement of Democracy and Governance support efficiency stretch targets of £0.225m which were offset by certain management action to reduce the shortfall.

vi) **The Corporate Items** line reports £2.688m under its net budget requirement. This variance related to the potential for the Council to:

a) Drawdown £1.0m from its insurance reserve and

b) Allocate £1.0m from its general contingency budget to offset its adverse variance of £0.285m underachievement of the council wide cross cutting savings target and £0.270m linked to a strategic asset review.

c) A review of the Minimum Revenue Provision Policy resulted in £5.964m savings through recouping prior year overly prudent provision and changing to the annuity method of calculation. In addition to this, there were other savings within Treasury Management of £0.762m due to a reduction in interest costs through improved cash management resulting in reduced borrowing, and further investment in the CCLA Property Fund.

d) Redundancies and Enhanced Voluntary Release Scheme costs in 2015/16 were met by £0.700m from the Redundancies Reserve; but a further £0.764m remained unfunded.

e) £0.500m was released from Pensions Reserve to meet the year-end pensions shortfall, but we have been able to replace £0.400m of this as part of the transfers to reserves detailed below.

f) Other adverse movements on the Corporate Items budget included £0.472m relating to changes in structure and staffing levels and the subsequent reduction in internal recharges, £0.470m impact of reduced trading activity on recharges, £0.100m shortfall on the forecast income from the Devon Business Rates Pool and £0.294m shortfall on corporate efficiency savings.

g) In addition to the above, the transfers to and from reserves and provisions to be approved in the outturn report reduce the Corporate Items outturn by £2.880m.

As in 2014/15, where we recorded a small overspend of £0.119m, we again came very close to balancing the books in 2015/16 with an underspend of £0.032m.

## OUTTURN POSITION 2015/16

There are a few particular areas to note within the overall outturn position 2015/16.

This is the first year of our pioneering Section 75 Agreement with the NHS Northern, Eastern, Western Devon Clinical Commissioning Group (N.E.W. Devon CCG). Working with our health partners and our revised budget setting process which reflects both cost and volume pressures for our social care budgets, 2015/16 is the first year we have recorded an underspend for our Adult Social Care provision in the past six years. Although our Children's Social Care came in £0.652m over budget, this represents a small variance of 2% against the allocated £34.686m.

Whilst our public health department is 100% grant funded, the Office of the Director of Public Health in Plymouth is also responsible for Public Protection Services and Civil Protection Unit. Both of these departments recorded savings against budget, totalling £0.318m.

For 2015/16 we have been able to use substantial savings from our revised Treasury Management Strategy, in particular our Minimum Revenue Provision (MRP).

There has been a recent change of advice from CIPFA on MRP calculations and the use of the annuity method. Prior years involved detailed calculations which were very prescriptive but these have been replaced with a requirement that local authorities calculate an amount of MRP which they consider to be prudent. During 2015/16 the Council has undertaken a review of its MRP calculation method and accounting assumptions which used a very complex methodology. The Council therefore engaged its TM advisors, Arlingclose, to review and advise best practice. The main conclusions were that, the way we were calculating our annual MRP charge has resulted in an over-provision for many years and it also recommended a change in the calculation method.

The previous method of calculating MRP was to spread the cost of borrowing in a straight line over a maximum of 25 years. The Council wants to match the economic benefits from its assets with the life of those assets and will now use the annuity method which not only spreads the cost of the borrowing over the life of the assets but it also takes into account the time value of money. The resulting change from the over provision of MRP in prior years led to a reduction of the MRP charge in 2015/16 by £5.96m. The change of calculation method to the annuity method will also reduce the MRP charge for 2016/17 by a further £4.70m.

| | 31 March 2015 | Outturn | 31 March 2016 |
|---|---|---|---|
| | £m | £m | £m |
| Working Balance | 10.620 | 0.032 | 10.652 |

The £0.032m underspend has been transferred to the General Fund Working Balance. The balance at the start of the year was £10.620m; after taking into account the final surplus for the year of £0.032m the working balance to carry forward as of 31 March 2016 stands at £10.652m.

## Other Financial Performance

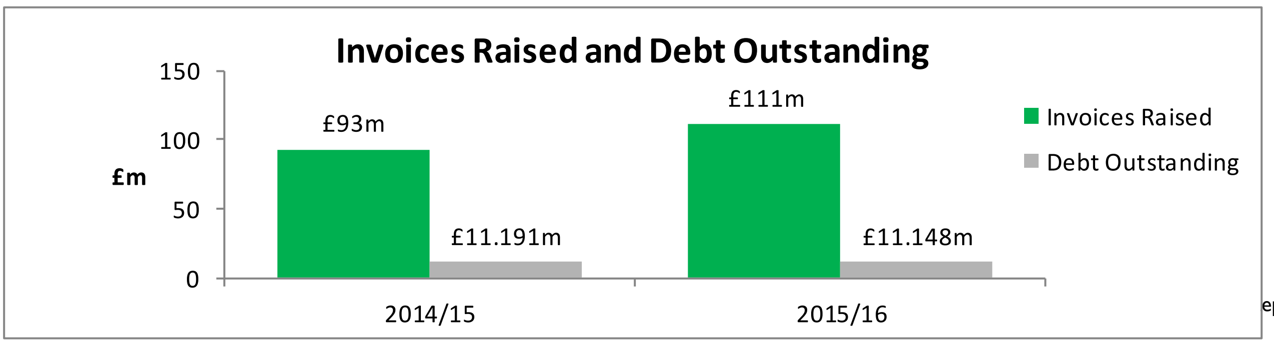
In addition to the minimal variance against the revenue budget there were a range of other significant financial achievements. In-year collection targets are set for our Council Tax, Business Rates, Commercial Rent, and Sundry Debt Income including our Trade Waste Income. The 2015/16 revenue budget was based on the achievement of the required targets.

We continue to increase our collection rates in core income streams and explore alternative ways of making further improvements. For example, in-year Council Tax collection rate has increased steadily from 92.5% in 2009/10 to our actual 96.8% in-year 2015/16.

Some Key Indicators are:

- The Miscellaneous Debt Management Team raised invoices to the total value of £111m in 2015/16 compared with £93m in 2014/15.

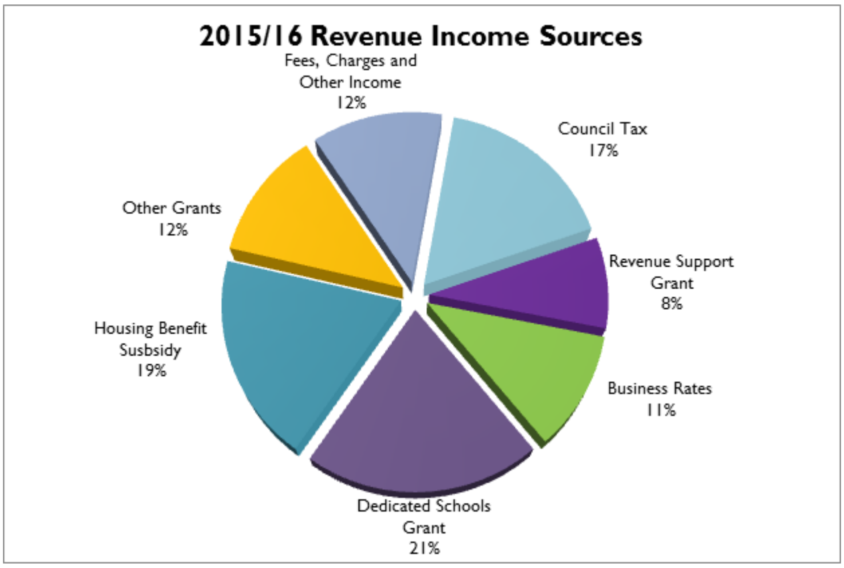
At the end of 2015/16 the debt outstanding was £11.148m compared to the debt outstanding of £11.191m in the previous year. £20m more was billed and collected, with arrears reduced by 15%.



- the value of invoices over 30 days old has reduced from £4.1m in 2014/15 to £3.5m in 2015/16
- 96.4% of our general debt was collected in year against a target of 95%. The UK average for 14/15 was 88% collected in 90 days. Plymouth collected 96.4% in 30 days.
- 97.1% of all invoices were paid within 30 days against a target of 95%
- 98.6% of NNDR collected against a target of 95.0%
- VAT partial exemption at 3.95% (14/15 = 4.37%)
- 53% of spend with PL post codes, against a target of 52% (14/15 = 48%)

## GENERAL FUND REVENUE ACCOUNT

## MONEY IN… INCOME SOURCES




Our Revenue Budget is financed from Council Tax, fees and charges, Government grants (which include the Revenue Support Grant (RSG) plus our allocation of Business Rates), external contributions and other income. The diagram is helpful in understanding how the 2015/16 revenue budget was financed:-

The Council set a band D Council Tax for the year of £1,320.58 for the Authority's element of Council Tax, at its meeting of 23 February 2015.

## MONEY OUT… WE SPENT OUR MONEY ON

We monitor the expenditure of the Council across three Directorates, being People, Place and Transformation & Change (incorporating Finance, HR, Legal services etc) with a small Chief Executive's Office and council-wide areas covered within our Corporate Items plus the Office of the Director of Public Health.

The total spend of £192.977m is shown by department within each directorate in the following table:

| People Directorate | £m |
|---|---|
| Children's Social Care | 35.338 |
| Co-operative Commissioning & Adult Social Care | 70.265 |
| Education, Learning & Family Support | 15.309 |
| Homes & Communities | 2.275 |
| Management & Support | 0.206 |
| **Total** | **123.393** |
| **Transformation & Change Directorate** | **£m** |
| Finance | 16.334 |
| Human Resources & Occupational Development | 2.391 |
| Legal | 2.944 |
| Customer Services | 2.879 |
| Management & Support | 0.162 |
| Transformation Programme | 4.528 |
| ICT | 6.258 |
| **Total** | **35.496** |

| Place Directorate | £m |
|---|---|
| Economic Development | 0.491 |
| Strategic Planning & Infrastructure | 9.405 |
| Street Services | 17.653 |
| Management & Support | (3.289) |
| | |
| **Total** | **24.260** |
| **Corporate Items** | **£m** |
| Capital Financing | 3.170 |
| Other Corporate Items | 2.016 |
| **Total** | **5.186** |
| **Chief Executive's Office** | **£m** |
| **Total** | **3.953** |
| **Office of Director of Public Health** | **£m** |
| **Total** | **0.689** |
| **Total Council** | **192.977** |

## CAPITAL OUTTURN 2015/16

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.

| Directorate | Forecast October 2015 | Outturn | Year End Overspend / (underspend) |
|---|---|---|---|
| | £m | £m | £m |
| Transformation and Change | 12.180 | 7.814 | (4.366) |
| People | 19.507 | 17.930 | (1.577) |
| Place | 45.293 | 36.480 | (8.813) |
| **Total** | **76.980** | **62.224** | **(14.756)** |

The Council has an ambitious capital investment plan, designed to improve the City's infrastructure, economy and housing. For 2015/16 capital expenditure totalled £62.224m, representing 81% of the latest approved budget of £76.980m.

The 2015/16 £62.224m programme outturn has enabled investment in some notable schemes, including:

| Capital Scheme | £m | Capital Scheme | £m |
|---|---|---|---|
| Basic Need improvements to local schools | 9.6 | Upgrade of the Material Recycling Facility | 1.8 |
| Carriageway resurfacing | 7.8 | New Central Library | 1.5 |

| | | | |
|---|---|---|---|
| Towards the cost of acquisition and redevelopment of the former Quality Hotel site | 4.3 | Progress on development of a new Coach Station at Mayflower West, to enable the redevelopment of a leisure complex at the existing Bretonside Bus Station site | 1.4 |
| Accommodation transformation, including the separation of the Council House and Guildhall | 4.0 | Green Deal grant awards to Plymouth private households for solid wall insulation | 1.3 |
| To commence major infrastructure projects to support growth along the Northern Corridor | 3.7 | Complete the construction of the Langage employment units | 1.3 |
| Knowle Primary school rebuild | 3.3 | On-going replacement of street lighting to provide energy and carbon savings | 2.1 |
| To enable the redevelopment of South Yard as a Marine Industries Production Campus | 3.0 | Dilapidated fleet replacements ensuring reliability and effectiveness for service delivery | 2.2 |

The year-end position includes £15m of re-profiling of schemes into 2016/17. This is spend which was scheduled to be delivered in 2015/16, but is now forecast to be delivered during 2016/17. The most significant projects being re-profiled are:

- The delivery of the Mayflower Coach Station project was delayed in 2015/16 due to contract negotiations, changes in design (value engineering process) and a Member request to keep the temporary Mayflower West Car Park open over Christmas. £1.427m of un-ring-fenced funded spend was incurred in 2015/16 compared to the £2.503m as cash-flowed for 2015/16 delivery in October 2015. This project will complete in summer 2016/17, at a total scheme cost of £4.856m. **(£1.1m)**
- At the time of the approval of the acquisition of the Quality Hotel site in January 2016, it was expected that demolition would be undertaken upon completion of the purchase in early 2016. Demolition works were, however, delayed into 2016/17 when asbestos was discovered. These borrowing funded costs are now being incurred on-site, with an estimated completion date of September 2016. **(£1.1m)**
- £4.715m of the total £7.990m Street Lighting LED replacement programme had already been delivered pre 2015/16. A further £3.125m of spend was scheduled to be delivered in 2015/16, as at October 2015. However, following a supplier issue, which has now been resolved, a reduced value of £2.065m was delivered in 2015/16. The programme is due to finish as scheduled in 2017, fully funded from service area funded borrowing. **(£1.1m)**
- As at October 2015, £2.601m of vehicles were expected to be ordered to meet 2015/16 PCC service client requirements. The actual value of vehicles delivered was £1.865m for 12 refuse trucks and a camera car. The ordering of £0.900m of planned vehicles including tippers, vans and loaders has been delayed into 2016/17 to enable a review that will ensure that vehicles ordered continue to meet the requirements of the end users. This project is fully funded from service area borrowing. **(£0.9m)**
- PCC have agreed to provide £2.903m of HCA ring-fenced dowry and S106 to support the £4m redevelopment by R.I.O (Real Ideas Organisation) of Devonport Market as a High Tech 'Play Market'. As at October 2015, it was anticipated that R.I.O would reach milestones that would result in the payment of £0.836m in 2015/16. However, as the planning application stage was not reached in 2015/16 as expected, only £0.144m was paid. The main reason for this is that the legal negotiations over the funding agreement and the lease took longer to conclude than anticipated. **(£0.7m)**
- On site works began in February 2016 to deliver the £2.24m Derriford Hospital Interchange transport project. As at October 2015, it was reported that £1.499m would be incurred in 2015/16. However, additional time was involved than first envisaged in procuring a contractor for the construction of the scheme; financial negotiations caused further project delay and

there was a need to secure agreement for the final tree clearance details which restricted the progression of the start of the main works. This resulted in £0.830m of works actually being delivered. Grant funders have confirmed that 2015/16 funding will be rolled over to support 2016/17 spend. Works are currently scheduled to complete in October 2016. **(£0.7m)**

- As at October 2015, the programme 2015 - 19 contained £20.500m to support the redevelopment of South Yard into a Marine Industries Production Campus. This was initially programmed to meet £15m of remediation/separation works and £5.500m for direct development of Area East. £1.600m of un-ring-fenced funded remediation works were planned for delivery in 2015/16. However, consideration and approval in April 2016 of a revised overall delivery strategy for the South Yard site concluded that £2.100m of resources should be vired for prioritised use on the Area East Development phase. This resulted in a delay in 2015/16 of the remediation works of £0.700m. Further demolition and site services works will now most likely commence from October 2016. **(£0.7m)**
- Design and advanced works commenced in 2015/16 for Outland Road Phase 1of the £3.392m Northern Corridor Junction Improvements, which are planned for 2015-20. At the time of approval (December 2015) it was anticipated that 2015/16 spend would be £0.7m. However, a change in the scope of the scheme has resulted in additional time being required for design and costing, resulting in slippage of £0.6m into 2016/17. Authority has been secured to roll the Growth Deal grant of £700k into 2016/17. Main works for phase 1 are currently scheduled for delivery in July – December 2016. **(£0.6m)**
- £0.071m of the total £0.862m of S106 funded highways for the Millbay School of Creative Arts had already been delivered pre 2015/16. A further £0.791m of spend was scheduled to be delivered in 2015/16, as at October 2015. However, these planned works were later slipped into 2016/17 due to Phase 3-5 delivery being delayed at Councillors request. Works incomplete relate to street lighting, 20mph zone and traffic management works. **(£0.6m)**
- £0.940m of un-ring-fenced resources were expected to be required to meet 2015/16 costs for the delivery of the Whitleigh HQ for the Four Greens Community Trust. Due to project delays arising from later than anticipated tenders resulted in the re-profiling of £0.5m into 2016/17. The total scheme cost of £1.275m is due to be financially complete in 2016/17. **(£0.5m)**

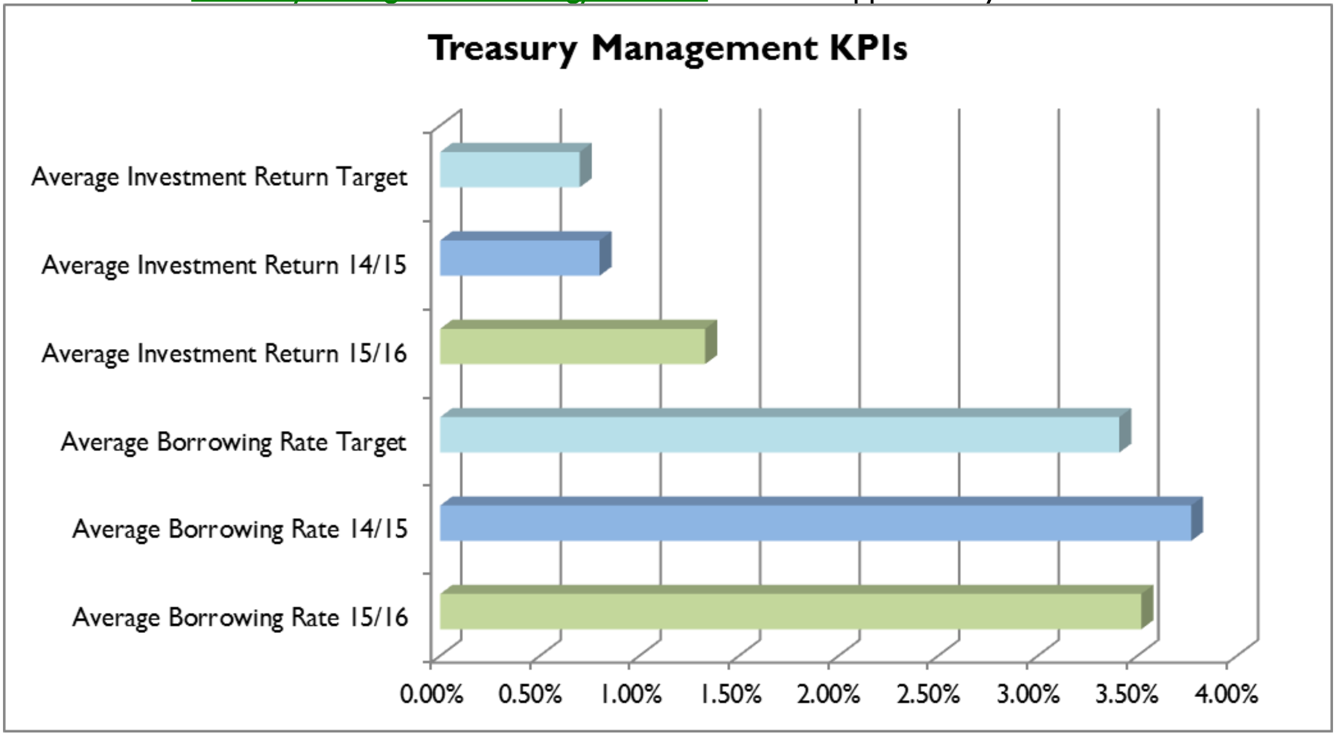
The main sources of capital grant funding are: Lottery Grant, Department for Education and Skills, Department for Transport Section 56, Department for Communities and Local Government (DCLG) (including Disabled Facilities grant) and Section 106 developer's contributions. The 2015/16 programme was fully funded:

| Method of Financing | Un-ring Fenced | Ring Fenced | Total |
|---|---|---|---|
| | £m | £m | £m |
| Capital Receipts | 10.533 | 0.149 | 10.682 |
| Grants (e.g. gov't, HLF, LEP, Environment Agency) | 15.135 | 18.973 | 34.108 |
| Internal PCC Balance Sheet Funds | 0.275 | 0.070 | 0.345 |
| Contributions, S106 & CIL (neighbourhood element) | 1.205 | 3.264 | 4.469 |
| Direct Revenue Funding from service areas | 0.000 | 1.343 | 1.343 |
| Borrowing | 11.277 | 0.000 | 11.277 |
| **Total** | **38.425** | **23.799** | **62.224** |

## TREASURY MANAGEMENT

The Council's Treasury Management Strategy is approved by Full Council each year. As an overriding principle, the strategy proposed that the Council would 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 would continue to make use of short-term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments.

The Council's Treasury Management Strategy 2016/17 has been approved by Full Council.




## External borrowing

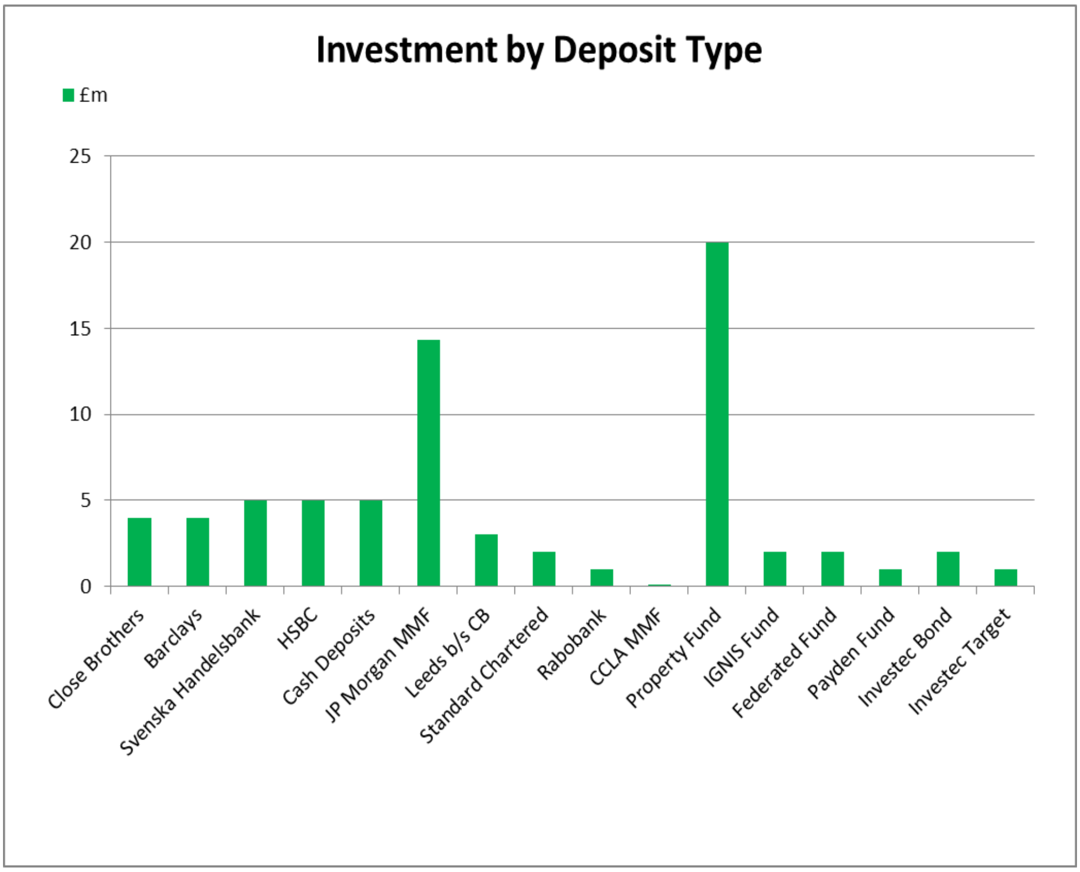
At the year-end, borrowing from external lenders totalled £240.43m, as shown in the table below. This should be viewed in relation to the value of the Council's operational land and buildings, plant and equipment and investment properties, which have a net book value of £533.256m at the 31 March 2016. The table below shows the absolute cash value of the debt which differs from the Balance Sheet value due to accounting treatment requirements.

| External Borrowing | Balance 1 April 2015 | Maturing Debt | New Borrowing | Balance 31 March 2016 | Average Rate |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | % |
| Short Term Borrowing | 68.200 | (197.500) | 225.360 | 96.060 | 0.01 |
| Long Term Borrowing | 144.370 | 0.000 | 0.000 | 144.370 | 5.76 |
| **Total Borrowing** | **212.570** | **(197.500)** | **225.360** | **240.430** | **3.51** |

## Investments

At the year-end, our investments were as follows:

Investments by bank/group at 31 March 2016




| **Bank / Group** | **£m** |
|---|---|
| Close Brothers | 4.000 |
| Barclays | 4.000 |
| Svenska Handelsbank | 5.000 |
| HSBC | 5.000 |
| Cash Deposits | 5.000 |
| JP Morgan MMF | 14.320 |
| Leeds b/s CB | 3.000 |
| Standard Chartered | 2.000 |
| Rabobank | 1.000 |
| CCLA MMF | 0.025 |
| Property Fund | 20.000 |
| IGNIS Fund | 2.000 |
| Federated Fund | 2.000 |
| Payden Fund | 1.000 |
| Investec Bond | 2.000 |
| Investec Target | 1.000 |
| **Total** | **71.345** |

## Update on Investments with Icelandic Banks

The latest position on the recoveries of monies invested in the Icelandic banks is shown below. The Council continues to pursue recovery of the outstanding monies in partnership with the LGA and continues to earn interest on these investments.

| Bank | Original Deposit | Balance 31 March 2016 |
|---|---|---|
| | £m | £m |
| Heritable Bank | 3.000 | 0.060 |
| Glitnir | 6.000 | 1.400 |
| Landsbanki | 4.000 | 0.000 |
| **Total** | **13.000** | **1.460** |

# OVERVIEW OF THE ACCOUNTING STATEMENTS

## Statutory duty and compliance with regulations

The Accounts and Audit (England) Regulations 2015 require the Council's Section 151 Officer, the Assistant Director for Finance, to certify that the accounts present a 'true and fair' view of the financial position of the Council as at the 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

We are required to prepare the Statements in accordance with the Code of Practice on Local Authority Accounting, based on International Financial Reporting Standards (IFRS). The two key documents:

Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and Update (The Code)

Service Reporting Code of Practice for Local Authorities 2015/16 and Update (SeRCOP)

These codes are updated annually by the Chartered Institute of Public Finance and Accountancy (CIPFA). There were no major changes for 2015/16.

## The Annual Governance Statement

The Code also sets out the statutory requirement, under the Accounts and Audit (England) Regulations 2015, for every local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and to include a statement reporting on the review with the Statement of Accounts. This review takes the form of the Annual Governance Statement (AGS).

The AGS was reported to and approved by the Audit Committee in June 2016.

## Contents

## The Statement of Accounts comprises:

A Narrative Report

Statement of Responsibilities for Statement of Accounts

The Main Accounting Statements and related Notes to the Accounts

Supplementary Statements in relation to the Collection Fund

## The Accounting Statements comprises four Core Financial Statements as follows:

The Movement in Reserves Statement

The Comprehensive Income and Expenditure Statement

The Balance Sheet

The Cash Flow Statement

**These main statements are then supplemented by:**

The Notes to the Core Financial Statements

The Collection Fund Account

A Glossary of technical terms

**Key areas covered in the Statement of Accounts include:-**

**Balance sheet**

The balance sheet again has a negative balance, all be it a reduced negative balance from that reported March 2015. This has again been caused mainly by movements in the unusable Reserves. The Council holds a number of reserve accounts in the Balance Sheet and these are shown in note 17.1.

There has been one large movement in the unusable reserves during the year. The pension reserve has decreased by a net figure of £51m.

**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 £455.597m being reflected in the Council's Balance Sheet. This represents Plymouth City Council's liability to the LGPS. In addition, the Council discloses a long-term creditor of £15.065m on the Balance Sheet. This represents its share of Devon County Council's on-going 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 pension liability as at 31 March 2016 has increased following the actuaries review of the position.

The resultant negative balance 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 20.1 per cent of pensionable salary costs for those employees in the Devon pension scheme and this will remain until 2017 when the next full actuarial review is undertaken.

**Material events after the balance sheet date**

The Council is required to take into account items occurring after 31 March 2016 if they would have a material effect on the financial information presented and must publish the date up to which such events have been considered. The final Statement of Accounts will be published in September and will therefore include all post Balance Sheet events up to and including September 2016.

Events taking place after that date will not be reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes will be adjusted in all material respects to reflect the impact of this information.

There are no relevant material non-adjusting events pertinent to the understanding of the Authority's financial position to report at this stage, but this might change for the publication of the final audited accounts.

## Financial position of the Council

### Going into 2016/17

At 31 March 2016 the Council's Working Balance stood at £10.652m which equates to approximately 5.7% of the net revenue budget for 2016/17 of £186.702m. Our approved Medium Term Financial Strategy (MTFS) requires us to maintain a Working Balance of at least 5%. This position has been reviewed and has been adjusted as part of the budget setting process for 2016/17.

In addition to the Working Balance, 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. Assuming the Corporate Adjustments outlined above are approved, the Council's earmarked reserves will stand at £30.587m at 31 March 2016 (up from £28.482m at 31 March 2015). This includes schools balances and reserves of £7.301m (down from £8.856m).

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 2016 totalled £22.428m. Further details of provisions are in note 16. 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

We have had our settlement confirmed for 2016/17 and it is in line with our projections, with a further reduction in core grant funding from £44.4m to £33.21m; this is a reduction of over £11m, or just under 25%. Alongside this reduction we will continue to see a number of significant financial pressures in the medium term. On top of the already increasing demand for areas such as social care, due to demographic changes and price inflation, we also have additional costs as a direct result of Government policy changes. The Government has announced changes to the rate of national insurance on both employees and their employers for those eligible or entitled to a defined benefit pension. Plymouth City Council runs such a scheme and will therefore incur this additional cost burden. In the 2015 Budget, it was announced that the new compulsory National Living Wage of £7.20 per hour will be introduced in April 2016, again impacting on our costs. We are also preparing for the planned review of Non Domestic Rates (NDR), more commonly referred to as Business rates, with new valuations in place from April 2017 and the proposed move to 100% rates retention in 2019/20. We will build on our successes with our Section 75 agreement to pool funding covering all aspects of children's and adult's social care plus intervention services with our CCG partner.

We have set ourselves stretching targets for increasing our council tax income, through new housing build programmes, as well as growing our business rates base by encouraging new business opportunities. We will also build on our success with the Devon-wide Business Rates Pool to generate further additional rates income.

We will continue to refine the financial and non-financial benefits achievable through our transformation programme in order to address the funding challenges ahead.

We have extended the capital programme to provide a council investment of £282m over the next five years and continue to seek opportunities to lever in significant external investment in the city. Successful bids such as City Deal and the History Centre, alongside maximising contributions from developers, will leave a lasting positive legacy for the city.

### Concluding Remarks

The financial statements show that as a result of careful management of the Council's available resources we have achieved a financial outturn for 2015/16 of very close to budget, with a small underspend of £0.032m; maintained an adequate level of reserves and set aside provisions to meet our known future liabilities.

All of these actions leave the Council in a reasonable financial position to cope with the challenges of the future.

The formal audit of the Draft Statement of Accounts commenced on 15 June 2016, and in line with our statutory duty we made our accounts available for scrutiny by interested members of the public from 30th June to 10th August 2016.

Following any adjustments, as a result of the audit and/or post balance sheet events, we will present the final Statement of Accounts to the Audit Committee scheduled for September, and following formal sign off, we will publish them on our web pages no later than 30 September 2016.

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 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 willful 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 Council's Assistant Director for Finance (Section 151 Officer) is required to sign the final accounts by a statutory deadline of 30 September 2016.

Further information is available:

On the Council's website: plymouth.gov.uk/accounts or

From Chris Flower, Lead Accountant, Ballard House West Hoe Road, Plymouth PL1 3BJ, telephone 01752 304212, email 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' page 20.

A Hardingham
Assistant Director for Finance & Section 151 Officer
Ballard House, Plymouth PL1 3BJ

Dated: 10 June 2016

## Progress against the 2014/15 ISA260 Auditor's Report Action Plan APPENDIX B

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---|---|---|---|---|
| 1. | Once the draft financial statements have been prepared, no amendments should be made until the audit has been completed. | Deficiency | Agreed | April 2015<br>Lead Accountant – Technical Finance |
| 2. | The Council should introduce a sample-based approach to journal review and authorisation, covering all journals. | Deficiency | Internal Audit carry out an annual testing of a sample of journals as part of their internal audit. Finance will introduce its own random sample of journals to test accuracy, plus any individual journal entry >£500k will be authorised by Head of Corporate Strategy or Head of Finance Operations The Council are upgrading Civica Financials programme which should incorporate an alert system that automatically identifies unusual journals that fall outside prescribed parameters. These alerts will then be reviewed by finance management. | Agreed<br>April 2015<br>Head of Corporate Strategy / Lead Accountant – Technical Finance |
| 3. | Information Security Policies should be reviewed at planned intervals or when significant changes occur to ensure their continued suitability, adequacy and effectiveness. | Deficiency | The new IT support team are undertaking a review as part of their new remit of all systems. There is planned to be an annual review of these policies. | January 2015<br>Head of Corporate Strategy / ICT System Support Team Manager |