Leeds CITY COUNCIL

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Report of the Director of Resources

Corporate Governance and Audit Committee

Date: 18th July 2011

Subject: The Statement of Accounts 2010/11

Electoral Wards Affected:	**Specific Implications For:**	
	Equality and Diversity	☐
☐ Ward Members consulted (referred to in report)	Community Cohesion	☐
	Narrowing the Gap	☐

Executive Summary

1. The Responsible Financial Officer has certified that the 2010/11 accounts for Leeds City Council are a true and fair view of the Council's financial position. The accounts are fully IFRS compliant as required by the Accounts & Audit regulations 2011.

2. Overall the Council's net worth has decreased by £127m, primarily due to the following factors:
   - A £733m improvement in the pensions deficit, due to the move to increasing pensions in line with the Consumer Price Index instead of the Retail Price Index previously used. This has effectively halved the Council's pension deficit as recognised in the accounts.
   - A £891m reduction in the value of the Council's assets (£133m depreciation and a £758m impairment charge). This is mainly due to a reduction in the social value of the Authority's Council houses as determined by the Government.

3. Whilst financial reporting under IFRS provides an important indication as to the financial health of the Council, the amounts actually chargeable to a local authority's council tax and its General Fund reserves are controlled by legislation, and include a number of statutory and accounting adjustments. After taking account of these statutory adjustments, the Council underspent its approved budget of £569m by £5.1m. Consequently the Council's General Fund reserve has increased to £21.2m.

Recommendations

4. Members are asked to note the 2010/11 Statement of Accounts as certified by the responsible financial officer.

5. Agree to release the accounts for public inspection.

1.0 Purpose of the Report

1.1 The purpose of this report is to present to the Committee the 2010/11 Statement of Accounts for Leeds City Council prior to them being made available for public inspection. The accounts are provisionally timetabled for public inspection on the 25th July 2011. The Statement of Accounts is included with the agenda as a separate booklet for members of the Committee and is published on the Council's intranet site. Anyone else wishing to obtain a copy of the Statement of Accounts should contact the committee clerk named on the front of the agenda.

1.2 This report provides a summary analysis of the accounts to aid members in their understanding of the main financial issues. The report is split into four areas:

- Background information as to the statutory requirements for the accounts
- A summary of both the Council's in year financial performance and the financial health of the Council as at 31st March 2011.
- An update on the accounting issues impacting on the financial statements.
- An update on the Council's response to external audit issues raised in 2009/10.

Members should note that the accounts include a foreword by the Director of Resources which provides further interpretation of the accounts.

2.0 Background Information

2.1 In line with the requirements of the Accounts and Audit Regulations 2011, the Council's annual accounts have been certified by the responsible financial officer as a true and fair view of the Council's financial position. Whilst it is no longer a legal requirement for members to formally approve these unaudited accounts before the 30th June, members agreed in April 2011 to receive the accounts prior to them being made available for public inspection. The terms of reference of the Corporate Governance and Audit Committee include dealing with matters relating to the accounts.

2.2 The Council's accounts are to be made available for public inspection for 20 working days commencing 25th July 2011. The external audit of the accounts is due to commence on the 25th July 2011 and upon completion, the auditors will submit their report to this Committee. The audited accounts and the external audit report will be presented to this Committee on the 30th September.

2.3 For the first time, Local Authority Accounts are compiled based on International financial reporting standards (IFRS). The main changes required under IFRS are explained in section 4.0 of this report. Whilst there are a number of new statements and disclosures, one of the main requirements of IFRSs is that the accounts are restated as if IFRSs had always been applied. Consequently all comparator data has been amended to reflect the new standards. Where this leads to a material change from previously reported figures under UK GAAP they separately disclosed in the accounts (see page 92 of the accounts).

3.0 A Summary of the Council's Financial Position

3.1 The Council's Overall Financial Performance during 2010/11

3.1.2 Financial performance for the year

3.1.2.1 The overall reported outturn to Executive Board on the 22nd June 2011, recognised an underspend of £5.1m against an approved budget of £569.3m. However, the 2010/11 Comprehensive Income and Expenditure Statement (CI&E a/c) shows a deficit for the year of £127.6m (£770.7m in 2009/10). This deficit represents the amount the Council's net worth has fallen over the year. This is shown on the Balance Sheet as a reduction in net assets less liabilities between 31st March 2010 and 31st March 2011. In addition to the in year underspend of £5.1m, there are four main factors which have contributed to this reduction in the net worth of the Council:

i) Unlike in previous years, all changes to the pension deficit are now shown in the CI&E a/c. For 2010/11 the Council's pensions deficit has been significantly reduced, resulting in a £733m credit to the reported bottom line of the CI&E a/c. This mainly reflects the impact of the Government's decision to move to pension increases being in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The actuaries calculation of the Council's pension deficit assumes that the CPI rate is, on average, 0.5% less that the RPI rate resulting in a reduction to the predicted value of future pension liabilities. For consideration of how this much improved position compares with the latest actuarial review of the pension fund see para 3.2.1 below and for full details of the changes to the Council's pension deficit see appendix 1.

ii) The CI&E a/c incurs a charge for the depreciation of its fixed assets. This charge is an indication as to the cost the Council will have to incur, through borrowing and repairs and maintenance budgets, in order to maintain the standard of our buildings and other assets. For 2010/11 this amounted to a cost of £133m.

    The CI&E a/c also, receives an impairment charge if there is any indication that an asset is either being used up, or its value is falling, faster than currently recognised by the rate of depreciation. For 2010/11 this charge amounted to £758m. Normally such impairment charges reflect the reduction in the value of an asset from an incident such as a fire or demolition. However, in 2010/11 there has been a change in the way Council Houses are valued which has generated an impairment charge of £631m to the CI&E a/c. This impairment charge reflects the impact of the Government's decision to amend the prescribed calculation for assessing the social value of the Council's housing stock (from 47% of their market value to 31%). Any potential loss through impairment would only be realised if the assets were sold at their social value rather than the actual market value of the properties. The market value of our Council house stock is some £4.6bn compared to the new social value of £1,5bn. If the Council was to include the full market value of its Council Houses this would increase the Council's net worth by £3.1bn.

iii) Under IFRS any grants for which any conditions imposed by the granting body have been met, or there is a reasonable expectation that the conditions will be met, then the grant must be recognised in the CI&E account. Previously all unspent grants would have been treated as receipts in advance and carried forward as a creditor on the balance sheet. For 2010/11 this amounted to

£107m (£102m capital and a net £5m revenue grants). These grants are carried forward on the balance sheet to meet planned expenditure in future years.

iv) The CI&E a/c also recognises and gains or losses on disposal of fixed assets. For 2010/11 this amounted to a loss of £86m, reflecting the fact that a number of schools are now either trusts or academies. The Council has no choice in whether to transfer these assets and does not receive any consideration for their transfer.

3.1.2.2 Whilst financial reporting under IFRS provides an important indication as to the financial health of the Council, the amounts actually chargeable to a local authority's council tax and its General Fund reserves are controlled by legislation, and include a number of statutory and accounting adjustments. Of the above factors the pension savings, the depreciation and impairment charges and the losses on disposal of fixed assets are reversed under statute. Any grants remaining unspent in the year are carried forward as either a capital or revenue earmarked reserves.

3.1.2.3 Whilst recognising that the CI&E a/c provides a number of important indicators as to the financial health of the Council, it is the £5.1m surplus which has the immediate impact on taxpayers and dictates the level of General fund reserves available to the Council. This £5.1m underspend for the year has not been easily achieved as the Council has had to deal with in- year pressures in excess of £45m. These have included demand pressures of £24.3m, and declining income especially within City Development. In addition, the new Government announced a £1.166bn in-year reduction in grants to Local Authorities as part of its accelerated deficit reduction plan; the impact of which was a £15.0m reduction in revenue grants to the Council. The scale of these grant reductions and the fact that they were notified part way through the year presented the Council with a significant difficulty in managing them. However, through careful financial management, the delivery of staffing, other savings in directorates and the corporate identification of savings, it has been possible to not only deliver a balanced position, but to also to make a contribution to reserves in anticipation of the budgeted utilisation of reserves planned for 2011/12.

3.1.2.4 The General Fund reserve now stands at £21.1m. After the use of £2m as agreed to support the 2011/12 budget, this would leave an estimated £19.2m at the 31st March 2012. This is broadly in line with the minimum reserves as determined by the Council's risk based reserves strategy.

3.2. Financial Health as at 31st March 2011

3.2.1 As identified in the CI&E a/c, the Council's assets net of liabilities has fallen by £127.6m and now stands at £710.5m. Whilst para. 3.1.2.1 above identifies the main reasons for this fall, the Council's balance sheet also contains other transactions, mainly relating to capital, which impact on the Council's financial standing. The following section analyses the main issues impacting on the Council's balance sheet as at 31st March 2011:

- The Council's overall share of the pension deficit on the fund has fallen to £740m and represents the difference between the value of the Authority's pension fund assets at 31st March 2011 and the estimated present value of the future pension payments to which it was committed at that date. These pensions liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities was considered by the actuaries in their full actuarial review of the Pension Fund, carried out as at 31st March 2010. Whilst this is done on a different basis to the determination of the deficit in the annual accounts, it does provide a good indication of the future standing of the pension fund based on the fund's current position. The actuarial review concluded that the Pension fund was 93% funded, with a predicted deficit for Leeds City Council of £97m. Based on the actuarial review, the Council has established appropriate employer contribution rates in order to move the fund towards a fully funded position over a 22 year recovery period. This position excludes any potential impact of the recently published Hutton report and the intention of the Government to increase employee contributions to public sector pension schemes on average by 3%. Employer contribution rates have been agreed on the basis that should employee contributions change prior to the next valuation, then employer contribution would be reviewed.

- Overall the value of the Council's long term assets have fallen by £741m. There are a number of factors affecting the value of our assets but as outlined in 3.1.2.1 above the largest impact in 2010/11 is due to the depreciation and impairment of the assets. Other factors impacting on the carrying value of our assets are:

  - Additional capital spend in year of £279m.
  - Disposals of £93m, of which £86m was recognised as a loss in the CI&E a/c as a number of schools were transferred to trusts or recognised as academies.

  Whilst we have seen a drop in the operational value of the Council's long term assets, the overall market value of the Council's assets is considerably higher. In particular the market value of our Housing stock is around £4.6bn (current social value £1.5bn) and our infrastructure assets are currently only recognised at depreciated historic cost (£708m) when their market value would run into billions of pounds.

- Overall the Council's useable reserves have risen from £162m in 2009/10 to £191m in 2010/11, an increase of £29m. The majority of these £191m of useable reserves are ring fenced (£151m) and are not available to support general expenditure. The main ring fenced reserves as at 31st March 2011 are:

  - School based reserves £25m;
  - Revenue grants received in advance of planned expenditure £12m;
  - Capital grants received in advance of planned expenditure £94m (£87m as at 31st March 2010, plus a further £102m received in year, less the £96m applied to fund capital schemes);
  - Housing Revenue Account reserves £20m, statutorily ring fenced to the provision of local authority housing.

  The remaining £40m of reserves is made up of the £21m General Fund Reserve and £19m of earmarked reserves. Of the £19m earmarked reserves, the majority, some £15m, is earmarked to support future PFI or capital liabilities.

- Overall debt stands at £1,504m (£1,459m in 2009/10) made up of long term borrowing £1,299m (£1,334m in 2009/10) and borrowing repayable on demand or within one year of £205m (£125m in 2009/10).

  The level of overall debt has increased by £45m from 2009/10 reflecting £20m of new long term and a net £25m of new short term loans. In addition, whilst not impacting on overall debt levels, some loans have now been reclassified as short term as they have less than a year to maturity.

Full details of the Council's Treasury Management activities for the year will be available in the Treasury Management report to Executive Board on the 27th July 2011.

- The amount owed by the Authority for the financial year but not yet paid (current creditors) decreased by £19m. The major reason for the decrease in creditors reflects a £10m reduction in the year end payments due to Education Leeds as the contract came to an end on the 31st March 2011, and a £2m reduction in the amount outstanding to HMRC due to a fall in the tax payable on the actual number of equal pay compensation payments made in year. In respect of creditor payments to individuals and business it is the Council's aim to pay such creditors within 30 days. For 2010/11 the Council paid 90% of its undisputed invoices within the 30 days, an increase in performance of 2% compared to 2009/10. Overall 94% of the authority's invoices were paid within 40 days and 100% of small suppliers were paid within 20 days.
- The amount owed to the Authority for the financial year but not yet received (current debtors) decreased by £20m. The main reason for this decrease in the value of debtors was a £11m reduction in outstanding grants due from Government departments following the cessation of some grants and the year end timing of when grants are actually paid. In addition there was a £7m reduction in the NNDR debtor due the timing and improved estimation used in the 2010/11 interim claim which reduced the value of the outstanding claim at year end and.
- Provisions have increased by £34m, mainly reflecting additional settlements due under the equal pay agreement.
- The Council recognises the amounts due under PFI and finance leases as deferred liabilities on the Balance Sheet. As at 31st March 2011 the Council's deferred liabilities have increased by £48m, mainly reflecting additional liabilities on new PFI schemes in 2010/11.

3.3 Ring Fenced Accounts:

3.3.1 Housing Revenue Account (HRA)

3.3.1.1 The HRA Income & Expenditure account shows a deficit for the year of £634.3m. This deficit is then adjusted to reflect any statutory overrides to accounting practice in order to produce a reported financial position which directly impacts on Council House rent payers. For 2010/11 the statutory overrides amounted to a credit to the HRA of £636.2m, resulting in a financial surplus for the HRA of £1.9m (compared to a deficit of £0.7m in 2009/10). The main statutory override impacting on the 2010/11 HRA is the reversal of a £631.4m impairment charge made in year, reflecting the Government decision to reduce the social value of Council Houses recognised on Local Authority balance sheets.

3.3.1.2 The surplus of £1.9m was transferred to earmarked reserves as approved by the Executive Board on the 22nd June 2011. in addition the Executive Board agreed to set aside £0.6m of the HRA general reserve as a further earmarked reserve to fund the replacement of Care ring equipment.

3.3.1.3 Overall the HRA reserves stand at £20.1m as at 31st March 2011 (£18.1m as at 31st March 2010). £4.0m of this sum represents the HRA general reserve; this is deemed to be a prudent level based on the Council's risk based reserves strategy. Of the £16.1m earmarked HRA reserves, £11.5m is being held to fund the future costs of the Swarcliffe PFI scheme. Full details of the all the HRA reserves are shown in the Statement of Accounts.

3.3.2 Collection Fund

3.3.2.1 The Collection Fund for 2010/11 generated a deficit of £0.84m (£0.82m deficit 2009/10). This leaves the collection fund with negative reserves as at 31st March 2011 (there were no reserves carried forward as at 31st March 2010). There is no requirement to hold a balance on the Collection Fund reserve but any positive or negative balance must be taken into account when calculating the council tax for the following year.

3.4 Group

3.4.1 Arms Length Management Organisations (ALMOs)

3.4.1.1 Collectively the three ALMOs showed a surplus position for 2010/11 of £37.8m (£8.7m surplus in 2009/10). The detailed performance figures for each individual ALMO are available in the Statement of Accounts under the Group Accounts section.

3.4.1.2 The net assets held by the companies to fund the pensions deficit now stand at £46.3m (£31.8m in 2009/10). As at 31st March 2011, the net pension liability for the three ALMOs stood at £11.7m (£35.3m in 2009/10), producing net reserves for the companies of £34.6m (£3.5m negative reserves in 2009/10). As the ALMOs are members of the West Yorkshire Pension Fund, the reasons for this improvement in the pension deficits is the same as for the Council.

3.4.2 **Education Leeds**

3.4.2.1 Due to the cessation of the contract with Education Leeds at 31st March 2011, the contract was amended before the year-end in order to repay the accumulated operating surplus as at 31st March 2010 and the forecast in-year surplus for 2010/11. This amounted to a reduction in the Education Leeds contract of £3.2m. Consequently Education Leeds has a small in year operating deficit, before pension adjustments, of £0.8m for 2010/11 (£0.5m deficit in 2009/10).

3.4.2.2 The net assets (reserves) held by the company to fund the pensions deficit now stands at £1.8m (£2.6m net liabilities in 2009/10). As at 31st March 2011, the net pension liability for Education Leeds stood at £30.7m. (£65.1m in 2009/10), producing a net liabilities for the company of £28.9m (£62.5m in 2009/10). As Education Leeds was a member of the West Yorkshire Pension Fund, the reasons for this improvement in the pension deficits is the same as for the Council..

3.4.3 Other Group entities

3.4.3.1 The definition of group entities has changed under IFRS leading to an expansion in the number of entities now accounted for under the Council's Group accounts. The following entities are now included and their results consolidated into the group accounts:

Leeds Grand Theatre, Belle Isle Tenant Management Organisation, Leeds groundwork trust, Marketing Leeds Ltd, Green Leeds Ltd and the Craft Centre and Design Gallery Limited.

Collectively these entities broke even in year and have reserves of £1.6m as at 31st March 2011.

3.4.4 Impact of the Group entities on the overall financial position

3.4.4.1 Whilst it should be recognised that the Group entities do not represent a major part of the Council's activities, the Group Accounts do show that they hold a significant level of reserves (£52m). The major reason behind these levels of reserves is to contribute to the pension deficits of £43m.

3.4.4.2 It should be noted that whilst the Group Accounts do show the full scale of the Council's financial activities, those that are the most financially significant are in-fact limited companies and as such the Council would only be required to contribute a nominal sum if any of them are wound up.

4.0 Accounting Issues Impacting on the Financial Statements:

4.1 Changes to Accounting Practice

4.1.1 The accounting practice governing Local Authority accounts has undergone significant changes over the last few years with the 2010/11 accounts required to move to full compliance with International Financial Reporting Standards (IFRSs). Members of this Committee have been updated on the main issues and progress towards IFRS compliance in a number of up-date reports over the last few years. Some of the IFRS based changes were introduced in 2009/10 i.e. IFRS based accounting practice for PFI transactions.

The main changes are:

4.1.2 The adoption of IFRS based accounting practice requires the accounts to be amended to reflect the position as if IFRS accounting had always been applied. Consequently all comparator figures have been amended in line with the new requirements of IFRS.

4.1.3 The new Comprehensive Income & Expenditure account (CI&E a/c) recognises the change in the Council's overall net worth. Previously, under UK (GAAP) any unrealised gains and losses were not recognised in the Income & Expenditure account but shown in a separate Statement of Total recognised Gains and Losses. Unrealised gains and losses such as the revaluation of assets, are now charged directly to the CI&E a/c.

4.1.4 The new Statement of movement in reserves identifies all the movement in reserves for the year, analysed between useable and unuseable reserves. Unuseable reserves are those based on statutory adjustments to ensure certain accounting requirements do not impact disproportionately on current tax payers.

4.1.5 All the Council's leases have been reviewed to determine whether they are operating or finance leases under IFRS based accounts. Assets funded under finance leases are recognised on the balance sheet along with any associated deferred liabilities.

4.1.6 Under IFRS, any grants for which any conditions imposed by the granting body have been met, or there is a reasonable expectation that the conditions will be met, then the grant must be recognised in the CI&E account. Any unused grants are then carried forward as either a useable capital reserve or a revenue earmarked reserve. Previously capital grants would have been applied directly to appropriate capital schemes and any unspent grant carried forward as a receipt in advance.

4.1.7 Any short term employee benefits such as paid annual leave or paid sick pay must be accounted for in the year in which the employee worked for the Council. Consequently any outstanding benefits must be accrued to the CI&E a/c. A statutory override allows Local Authorities to carry forward such accruals in an unuseable statutory revenue reserve. For 2010/11 this accrual amounted to £11m, the bulk of which related to teachers due to the timing difference between the school year and that of the financial year end.

4.1.8 Under IFRS the definition of what constitutes the Council's control and influence over entities has changed. This has lead to an increase in the number of subsidiary and associate companies now consolidated into the Group accounts.

5.0 External Audit Issues

5.1 In September 2010, KPMG reported back to this Committee its main audit findings in respect of the 2009/10 accounts. In this report, KPMG informed members of just two areas of concern, namely, the need to review all items in the Fixed Asset Register to ensure all assets are still owned by the Authority and to ensure that all valuations are included in the Fixed Asset Register.

5.2 The review of the Fixed Asset Register has been undertaken and the findings of which was reported to this Committee on the 15th June 2011. The resulting amendments have now been incorporated in the Fixed Asset Register. Controls have also been tightened to ensure all valuations have been updated into the register.

5.3 As stated in paragraph 2.2 above, any relevant matters arising from the audit of the 2010/11 accounts are reported back to this Committee in September.

6.0 Implications for Council Policy and Governance

6.1 The Statement of Accounts is an audited publication which provides all stakeholders with the confidence that public money has been properly accounted for and that the financial standing of the Council is on a secure basis.

6.2 As required by the Accounts and Audit Regulations 2011, the accounts are to be made available for public inspection for twenty working days. Local electors and taxpayers have the right to look through the accounts and supporting documentation. They also have the right to object to the accounts and question the auditors.

7.0 Legal and Resource Implications

7.1 The Accounts are required to be certified as a true and fair view of the Council's financial position by the Responsible Financial Officer before the end of June. This is a factual report of the Director of Resources on the financial accounts of the Council for 2010/11. There are no additional legal or financial implications.

8.0 Recommendations

8.1 Members are asked to note the 2010/11 Statement of Accounts as certified by the responsible financial officer.

8.2 Agree to release the accounts for public inspection.

Background Documents

2010/11 Statement of Accounts (separately distributed to members at the Corporate Governance and Audit Committee on the 18th July 2011).

KPMG ISA 260 Report 2009/10

The Code of Practice on Local Authority Accounting in the United Kingdom 2010

Corporate Governance and Audit Reports on International Financial Reporting Standards (23rd April 2008, 17th March 2010 & 14th February 2011)

Executive Board report (22nd June 2011): Financial Performance – Outturn 2010/11

Executive Board report (27th July 2011): Treasury Management report 2010/11

Appendix 1.

Factors impacting on the Pension deficit in 2010/11

For 2010/11 one of the most significant areas which has impacted on the Council's balance sheet has been in respect of pension liabilities. As at the 31st March 2011 the net pensions liability under IAS 19 stood at £740m, a decrease in the net liability of £734m from last year. The main factors which have contributed to this decrease are:

- The future pension liabilities held on the balance sheet are discounted back to current prices. Every year these pension liabilities become one year closer to being paid and the accounts therefore reflect the unravelling of one more year of this discount. Consequently the level of pension liabilities rises each year and for 2010/11 this increase amounted to £162m.
- For 2010/11 there have been a number of changes to the actuarial assumptions, by far the biggest of which was the Government's decision to move to pension increases being in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The actuaries have assumed that the CPI rate is, on average, 0.5% less that the RPI rate. This and other minor changes to assumptions has lead to a £668m reduction in the expected liabilities of the fund.
- The value of the council's pension fund assets has risen by £240m mainly due to the steady performance of the stock markets over the last year.

The main differences between the pensions deficit as calculated in the accounts and that calculated in the actuarial review.

Under the accounting standard (IAS 19) the Council must determine the future cost of the pension liability earned to date by it's employees. In order to do this, the Council's actuaries estimate the how long they expect the officers in the scheme are expected to live and their anticipated rise in salary (pay awards, increments etc.). The level of future pensions is then inflated (now based on CPI) to calculate the likely future liabilities the Council faces under the scheme. This is broadly the same approach as followed in the actuarial review. The only real difference will be slight changes to some of the assumptions used due to the timing of the assessments.

In order to include this projected future pensions liability in the accounts it needs to be discounted back to current prices. The discount rate used is determined by the accounting standard. This is currently the yield on corporate and government bonds as at the reporting year end. In theory this discount rate is expected to be stable over the long term and represents the time value of money. Due to the exceptional economic situation over the last few years there has been some fluctuations in this discount rate but it is expected to be relatively stable over the long term. The actuarial review also discounts future pension liabilities but for this calculation the actuaries are not restricted to the yield on bond rates but instead choose a rate which they believe is more applicable for bodies in the West Yorkshire Pension Scheme. They therefore apply a higher discount rate based on expected returns on the pension fund's assets and the long term financial standing of the Councils in the scheme. Accordingly, the actuarial review produces a lower level of future pension liabilities (at current prices) than that used in the accounts.

In respect of the fund's assets to pay for these liabilities, accounting practice only allows the Council's accounts to include them at their current value. Any expected future growth in these assets remains uncertain and the prudent approach in accounting practice is that organisations can only included gains on investments when the gains are certain. Consequently the accounts are always likely to show the pension fund in deficit as the viability of a scheme will always depend on asset growth. In comparison the actuarial review assesses the long term viability of the fund and therefore assumes that the assets will grow in order to meet future liabilities. Consequently the value of the fund's assets in the actuarial review are much greater than those in the accounts. It is therefore the actuarial review which helps determine the employer contribution rates required to meet any projected deficit.