Tuesday, 17 September 2013

AUDIT COMMITTEE

A meeting of **Audit Committee** will be held on

Wednesday, 25 September 2013

commencing at **2.00 pm**

The meeting will be held in the Meadfoot Room, Town Hall, Castle Circus, Torquay, TQ1 3DR

Members of the Committee

Councillor Addis	Councillor Tyerman
Councillor Bent	Councillor Stocks
Councillor Brooksbank	Councillor Stringer

Working for a healthy, prosperous and happy Bay

For information relating to this meeting or to request a copy in another format or language please contact:

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AUDIT COMMITTEE
AGENDA

1. Apologies
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.

2. Minutes (Pages 1 - 3)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 26 June 2013.

3. Declarations of interests

(a) To receive declarations of non pecuniary interests in respect of items on this agenda

For reference: Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

(b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda

For reference: Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

(**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)

4. Urgent Items
To consider any other items that the Chairman decides are urgent.

5. The Audit Findings for Torbay Council (Pages 4 - 36)
To consider a report that highlights the key matters arising from Grant Thornton's audit of Torbay Council's financial statements for the year ended 31 March 2013.

6. Review of the Council's Arrangements for Securing Financial Resilience for Torbay Council (Pages 37 - 74)
To consider a report on the above.

7. Statement of Accounts 2012/13 (Pages 75 - 236)
To consider a report that seeks approval of the Council's Statement of Accounts for the year ended 31 March 2013.

8. Internal Audit Report - Follow Up Report on Areas Requiring Improvement (Pages 237 - 252)
To consider a report on the above.

Minutes of the Audit Committee

26 June 2013

-: Present :-

Councillors Addis, Bent, Brooksbank, Tyerman, Stocks and Pentney

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1. Election of Chairman/woman

Councillor Tyerman was elected Chairman for the 2013/2014 Municipal Year.

2. Apologies

It was reported that, in accordance with the wishes of the Liberal Democrat Group, the membership of the Committee had been amended for this meeting by including Councillor Pentney instead of Councillor Pountney.

3. Appointment of Vice-Chairman/woman

Councillor Pountney was appointed Vice-Chairman for the 2013/2014 Municipal Year.

4. Minutes

The Minutes of the meeting of the Audit Committee held on 20 March 2013 were confirmed as a correct record and signed by the Chairman.

5. Audit Committee Terms of Reference

Members received and noted the Terms of Reference for the Audit Committee as set out in the submitted report.

6. Audit Committee Update for Torbay Council

The Committee noted the submitted report which set out audit work that the Council's external auditors proposed to undertake. Members also noted the emerging issues and developments, in particular, a survey's findings relating to council accounts as set out in the Local Government Governance Review 2013.

7. The Audit Plan for Torbay Council

Members noted the approach that Grant Thornton would be using to audit the authority. Members were informed that the audit approach was risk based, resulting in examination being focused upon areas where risk of material misstatement in the accounts had been identified.

8. Annual Governance Statement 2012/13

Members were advised that the Annual Governance Statement provides the opportunity for the authority to review its processes, controls and objectives, thereby providing Members, Senior Officers and stakeholders assurance as to the reliability of its statement of accounts and the probity of its operations.

Resolved:

i) that the Annual Governance Statement for 2012/13 be approved;

ii) that the Mayor and Chief Operating Officer be given approval to sign the Annual Governance Statement and append the Statement to the Statement of Accounts; and

iii) that following the review of the Annual Governance Statement by the External Auditors, officers present an action plan to a future meeting of the Audit Committee.

9. Treasury Management Outturn 2012/13

Members considered a report that set out the performance of the Treasury Management function in supporting the provision of Council services in 2012/13 through the management of cash flow, debt and investment operations and the effective control of the associated risks.

Members were advised that the Council is required through regulations issued under the Local Government Act 2003 to produce an annual outturn report reviewing treasury management activities and the actual prudential and treasury indicators for 2012/13.

Resolved:

i) that subject to greater clarification of paragraphs A8.2 and A8.3 of the submitted report, the Treasury Management decision made during 2012/13 be endorsed; and

ii) that the Audit Committee recommends Council endorse the Treasury Management decisions made during 2012/13, as detailed in the submitted report and approve the Prudential and Treasury Indicators as set out in Annex 1 to the report.

10. Strategic Risk Management 2012/13

Members noted the report which outlined the council's position at the end of 2012/13 in relation to risk management. Members were advised that five key strategic risks had been identified along with responsible lead officers. The five strategic risks are:

- fair decision making;
- demand management;
- welfare reforms;
- finance; and
- safeguarding

Members sought clarification regarding safeguarding as to whether this risk referred to children, adults or both.

11. Exclusion of the Press and Public

(**Note:** Prior to consideration of the item in Minute 11 above the press and public were formally excluded from the meeting on the grounds that the item involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).)

12. Internal Audit Annual Report

Members noted the Internal Audit Annual Report and paid particular attention to the Council's ICT resilience.

Chairman/woman

Agenda Item 5

Grant Thornton

The Audit Findings for Torbay Council

Year ended 31 March 2013

September 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Torbay Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which was reported in our Audit Pan dated 25 April 2013 and communicated to the Audit Committee on the 19 June 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- employees remuneration (schools) and operating expenditure (schools)
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts (WGA)

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

Our audit of the financial statements submitted for audit did not identify any errors which would adjust the reported surplus for the year of £0.4m. We did however identify an error that reduced the balance sheet by £2.95m. This arose as the Valuers report in respect of the Council's fixed assets included a Voluntary Aided school which is not a Council asset. This resulted in an overstatement of PPE and the revaluation reserve.
An amendment was also made to disclosures in respect of related party transactions within the financial statements (further details are set out in section 2 of this report).
There are no non-adjusted misstatements.

The key messages arising from our audit of the Council's financial statements are:

- the accounts were produced to a good standard
- the audit has been facilitated by good supporting working papers and excellent assistance by the finance team
- all requests for additional information were dealt with promptly by the finance team.

Value for money conclusion
We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)
We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work identified control weaknesses relating to the schedule of assets used by the Valuer to value the Council's assets, which we wish to bring to your attention.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Head – Finance.

We have made a recommendation, which is set out in the action plan in Appendix A. This has been discussed and agreed with the Executive Head – Finance and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on the 19 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan previously communicated to you.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • performance of attribute testing on material revenue streams	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • undertaken analytical procedures to identify unrecorded liabilities • tested operating expenses including obtaining supporting documentation for a sample of transactions in year	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • undertaken analytical procedures to identify unrecorded liabilities • reviewed a sample of creditors / accruals to confirm they had been appropriately accounted for • reviewed subsequent year payments and sample checked for unrecorded liabilities	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reviewed a sample of employee remuneration expenses to confirm they have been appropriately accounted for • reviewed employee remuneration liabilities to ensure they have been calculated in accordance with the Code (eg, holiday pay)	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reconciled the housing benefit and council tax benefit subsidy claim to the ledger and accounts • substantially completed the required HB count testing, which included testing a sample of benefit claims to ensure they were eligible and had been calculated correctly	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reviewed the capitalisation policy and confirmed repairs and maintenance accounts had not been capitalised • compared actual capital spend with programmed spend to ensure that expected costs had been capitalised • reviewed a sample of in year additions to confirm they had been appropriately accounted for	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • evaluated the qualifications and the work completed by the Valuer to ensure that the Code had been complied with • confirmed that the asset values had been appropriately accounted for in the asset register and accounts	Our documentation and walkthrough of the transaction cycle has not identified any significant issues in relation to the risk identified. We did identify that the Valuers report in respect of the Council's fixed assets included a Voluntary Aided school which is not a Council asset. Correction of this error resulted in a reduction in the value of PPE held in the balance sheet of £2.95m.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The main sources of revenue for the Council are:- – government grants and contributions – council tax income – fees and charges	We have reviewed the Council's recognition of revenue and found that:- • Appropriate policies had been used • Accounting policies had been adequately disclosed • Revenue had been appropriately recognised	●
Judgements and estimates	Key estimates and judgements include: – useful life of capital equipment – pension fund valuations and settlements – depreciation – revaluations – impairments – provisions – accruals	We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:- • Appropriate policies had been used • Accounting policies had been adequately disclosed • Areas where judgement had been used were supported by the work of an expert or a third party	●
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	●

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position. There are no non-adjusted misstatements.

	Detail	Comprehensive Income and Expenditure Account £'M	Balance Sheet £'M	Impact on total net expenditure £'M
1	The Council's Valuer produces a schedule of assets he intends to review during the year. In 2012/13 the schedule included a Voluntary Aided school which is not one of the Councils assets. This resulted in an overstatement of PPE and the revaluation reserve.	0.00	(2.95)	0
	Overall impact	**0.00**	**(2.95)**	**0**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	N/A	Note 42 - Related Parties	Disclosure only – additional narrative added in respect of Members to clarify that no related party transactions were material.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	● (amber)	The Council's Valuer produces a schedule of assets he intends to review during the year. In 2012/13 the schedule included a Voluntary Aided school which is not one of the Councils assets.	Ensure the Capital Accountant undertakes a review of the schedule of assets to be valued by the Valuer to ensure only the Councils assets are included.

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Council.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

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Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted that the arrangements were adequate.
We have noted a few areas where we consider there to be a residual risk. These are detailed in the table on the next page.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.
There are no issues we wish to report.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
New risk management system being developed.	We reviewed the progress to date of the implementation of the new risk management system and obtained an understanding of how it works.	Residual risk remains as to ensure an effective assurance framework is in place the Council needs to ensure that the new risk management system becomes fully embedded throughout the organisation.
On-going use of reserves.	We have monitored the Council's use of reserves during the year and reviewed the reports taken to Members.	Residual risk remains and we will continue to monitor the Council's use of reserves to ensure that it is being managed appropriately.
The Council currently has a high liquidity ratio .	We have reviewed Council minutes, budget and treasury management reports.	Residual risk identified as level of short term investments will reduce over the coming years as the funds will be spent on capital schemes. Borrowings that are currently long term will become short term which will impact on the ratio. Working capital will come under increasing pressure during the next few years and will need to be carefully monitored.
Savings plans have yet to be developed for future years.	We have reviewed the Council's budget setting reports, MTRP and capital plans.	Residual risk identified as although the Council has identified the level of savings required over the next 2 years it is currently in the process of developing detailed plans to support these.

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	135,000	135,000
Grant certification (indicative)	18,675	18,675
Total audit fees	**153,675**	**153,675**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure the Capital Accountant undertakes a review of the schedule of assets to be valued by the Valuer to ensure only the Councils assets are included.	Medium	Accepted – finance staff and Valuers to be reminded on the evaluation and accounting treatment for each type of school.	Chief Accountant already reviewing and updating procedures and future year Valuers engagement letters.

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TORBAY COUNCIL

Opinion on the financial statements

We have audited the financial statements of Torbay Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet and the Authority and Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Torbay Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the financial position of Torbay Council as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Torbay Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Torbay Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Alun Wiliiams
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street,
Bristol
BS1 6FT

25 September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan dated 25 April 2013, which was previously communicated to the Audit Committee on 19 June 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	An error of £2.95m was identified. The Valuers report in respect of the Council's fixed assets included a Voluntary Aided school which is not a Council asset.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	An error of £2.95m was identified. The Valuers report in respect of the Council's fixed assets included a Voluntary Aided school which is not a Council asset.

Grant Thornton

Agenda Item 6

Grant Thornton

Review of the Council's Arrangements for Securing Financial Resilience for Torbay Council

Year ended 31 March 2013

September 2013

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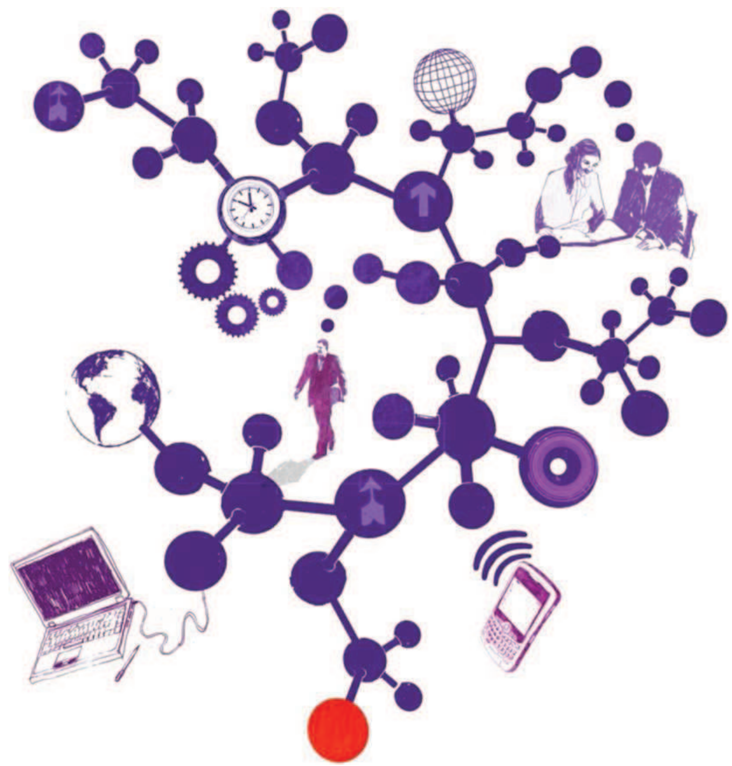

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces significant challenges during 2013-14 and beyond, its current arrangements for achieving financial resilience are adequate.

We have used a red/amber/green (RAG) rating with the following definitions.

Green	**Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and/or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920's. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12.

This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013/14.

The spending review for the next period is for a single financial year, 2015-16 and was announced by the Chancellor on 26 June 2013.

Financial austerity is expected to continue until at least 2017.

Local Context

Torbay Council is a unitary Council in the South West of England serving the coastal towns of Torquay, Paignton and Brixham. It has a population of 131,000 (Office of National Statistics estimate of population 2011), with 23.6% being over 65 years of age.

Torbay has some significant challenges. Total net spend per head of population is in the highest 20%, in comparison with its nearest neighbours (2011-12 Audit Commission VfM profiles) and over 30% of households do not have any member in employment (ONS annual population data 2011).

15,700 of the population are in receipt of benefits (ONS annual population data 2011), with 3,500 of these claiming Job Seekers Allowance (JSA). Total spend per head of the population on council tax and housing benefits administration is £22.10 per head, putting it in the highest 20%, in comparison with its nearest neighbours (2011-12 Audit Commission VfM profiles).

Following the Comprehensive Spending Review and the Local Government Settlement for 2011-13 announced in December 2010, the Council's 2012-13 approved budget required £9m of budget reductions, with a further £9m required for 2013-14.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	The Council is performing well against Key Indicators of Performance. Our review of indicators of borrowing, usable reserves balances, and schools balances all rated the Council as green. In respect of liquidity, as at 31 March 2012 the Council was performing well when compared to the Audit Commission Nearest Neighbour Benchmark Group, having the highest ratio. However, it should be noted that this due to a significant (£77.5) level of short term investments, which will reduce over the coming years as the funds will be spent on capital schemes. Also, borrowings that are currently long term will become short term which will impact on the ratio. Working capital will come under increasing pressure during the next few years and will need to be carefully monitored.	Amber
Strategic Financial Planning	The Council has good financial planning and reviewing processes in place. A 4 year Medium Term Resource Plan (MTRP) is in place covering 2011-12 to 2014-15. This is reviewed on a regular basis and updated annually once the Local Government Finance Settlement is announced. It reflects the impact of the significant reductions in government grant over the next 4 years and estimates that the Council will have a budget gap of approximately £21m over the next 3 years. The MTRP supports the Council's Corporate Plan and the assumptions are adequately reflected in the annual budgets. The business planning and budget setting process is embedded throughout the Council, with good member involvement.	Green
Financial Governance	The Council has effective governance arrangements in place. Through the business planning and budget setting process, the Council understands its financial environment at all levels, including members, who are actively engaged in the process. Clear and comprehensive reporting is undertaken and the Council has a track record of delivering performance in line with budgets set. The Council is currently in the process of identifying the savings required over the next 2 years. Detailed savings plans are yet to be developed.	Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Control	There is a robust budget setting process in place, which takes into account the views of stakeholders and includes rigorous review by Members, prior to the Mayor recommending approval to Full Council. The Council has an effective Internal Audit function and experienced, well qualified finance and accountancy officers, responsible for the production of management information and annual accounts. The Council manages its budget and this is evidenced by a good track record in achieving the overall budget and mitigating any overspends identified in year. Although, for 2012-13 £1.293m of uncommitted budget (including £0.9m of earmarked reserves) were used to achieve the year end surplus of £0.4m. £9m additional saving requirement has been identified for 2013-14 and the Council are in the process of identifying the savings required for 2014-15. However, detailed savings plans have yet to be developed. During the year a new electronic risk register has been introduced However, at this point in time it only identifies and captures Strategic risks (5 of them). This will be monitored by Directors on a monthly basis with quarterly reports to the Senior Leadership Team and the Audit Committee. A training programme for staff is currently being developed for 2013-14 using the Council's I-learn intranet training system.	Amber

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The Council currently has a high liquidity ratio which will need to be closely monitored as short term debt reduces and long term borrowing become short term.	Executive Head Finance	On-going	The council will ensue there is on-going monitoring of its working capital and the impact of the capital plan. This will be supported by reports to Members including quarterly capital monitoring reports and 6 monthly treasury management reports.
Financial Control	The Council needs to ensure that detailed savings plans are developed and monitored to support the overall saving requirements going forward.	Senior Leadership Team/Executive Head Finance	December 2013	The council is facing challenges caused by the significant cuts to it overall funding from government. The council is currently in the process of preparing a 2 year budget supported by detailed savings. These will form part of the Mayor's budget proposals in the autumn. All saving proposals will be monitored throughout the year as part of the on-going reporting process.
Financial Control	To ensure an effective assurance framework is in place the Council needs to ensure that the new risk management system becomes fully embedded throughout the organisation.	Executive Head Business Services	March 2015	Reports have been presented to the Audit Committee setting out the new approach to Risk Management with a focus on Strategic Risks. The new approach will continue to be developed and embedded throughout the organisation during 2013/14 and 2014/15. Operational risks as determined by services are monitored within SPAR.

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Appendix - Key indicators of financial performance

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Schools Reserves - Balances to DSG allocations

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

- Bath and North East Somerset
- Blackpool Council
- Borough of Poole
- Bournemouth Borough Council
- City of York Council
- Cornwall Council
- Darlington Borough Council
- East Riding Of Yorkshire Council
- Isle of Wight Council
- North Somerset Council
- North Tyneside Council
- Plymouth City Council
- Sefton Council
- Southend on Sea Borough Council
- Wirral Metropolitan BC

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	• The working capital ratio indicates whether a council has enough current assets to cover its immediate liabilities. The Council's working capital ratio was 2.83 at 31 March 2013, a slight decrease on 2011-12 of 0.04. As at 31 March 2012 the Council was performing well when compared to the Audit Commission Nearest Neighbour Benchmark Group for liquidity, and was the highest. However, it should be noted that this due to a significant (£77.5) level of short term investments, which will reduce over the coming years as the funds will be spent on capital schemes. Also, borrowings that currently long term will become short term impacting on the ratio. Working capital will come under increasing pressure during the next few years and will need to be carefully monitored. • As at 31 March 2013 the Council had a negative cash balance of £2.2m, a reduction of £14m from 2011-12 at which point £11.8m was held. Part of this reduction was due to the repayment of £5m of borrowings in the year and an additional benefit run payment compared with the previous year.	Amber
Borrowing	• The Council's borrowing , as per the 31 March 2013 balance sheet was £150.2m, with £1.9m due within one year. This is a reduction from the prior year as £5m of debt was repaid during the year. • Total borrowing is below the approved limit included in the Council's Treasury Management Strategy 2012-13 to 2014-15 of £192.0m. • According to the Audit Commission Nearest Neighbour Benchmark data for 2011-12, the Council showed average performance when compared to the Audit Commission's Nearest Neighbour Benchmark Group. • Long term borrowing as a percentage of tax revenues was 1.29 in 2011-12 and at the 31 March 2013 was 1.28, which is a comparably good performance and in line with the ideal ratio of 1:1. • Long term borrowing as a percentage of long term assets was 0.47 in 2011-12. However, at 31 March 2013, following a £57m reduction in the value of the Council's property assets relating to the transfer of schools to academy status, this increases to 0.53. With an ideal ratio being less than one this shows the Council continues to perform well.	Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances	• At 31 March 2013 the General Fund balance was £4.4m, which is a slight increase on the prior year of £0.4m. • Total usable reserves were £46.7m at year end, which represents a decrease of £4.5m from the prior year. • £3.5m of the reduction in usable reserves relates to earmarked reserves. During the year the Council took the decision to review in detail its earmarked reserves and where appropriate release some of the funds. • When compared to the Audit Commission nearest neighbour benchmark group, the Council was above average in terms of balances held to gross revenue expenditure at the 2011-12 year end.	Green
Schools Balances	• The Audit Commission accepts that there will be some unspent Direct Schools Grant at each year end which will be transferred to reserves but expects councils to ensure that the funding is spent on the current cohort. The Council historically has maintained low balances and the latest available data published by the Audit Commission, for 2011-12, shows that the Council has comparable reserves to its statistical nearest neighbour benchmark group in relation to year end balances held. • The reserves level at the year end 2011-12 showed a rise from £2.7m to £3.9m but this remains at an acceptable level (0.05 or 5%) and confirms that funds are being spent on the education of the current cohort of pupils and not held in reserves for future projects.	Green

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Appendix - Key indicators of financial performance

Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	• The Council has a 4 year Medium Term Resource Plan (MTRP) covering 2011-12 to 2014-15., which was originally approved by Members in October 2011. The MTRP is reviewed on a regular basis and updated annually once the Local Government Finance Settlement is announced. • The MTRP reflects the impact of the significant reductions in government grant over the 4 years of the Comprehensive Spending Review period and estimates that the Council will have a budget gap of approximately £21m over the next 3 years. • Other local factors considered in the MTRP are the service pressures due to significant increase demand, fees and charges and the general demographics of the population.	Green
Adequacy of planning assumptions	• The MTRP incorporates budgeted income and expenditure and provides an overview of local issues, national context and the Local Government resource review, as well as assumptions in respect of income, expenditure and reserves. • Key assumptions incorporated into the MTRP include: - income assumptions (formula grant) - income assumptions (other government grants (direct and indirect) - income assumptions (council tax) - reserves - expenditure pressures (base assumptions) - service pressures - fees and charges • The Council has a separate Capital Investment plan that covers the period 2012-13 to 2015-16.	Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Scope of the MTFP and links to annual planning	• The Council's budget planning is an integral feature of its overall corporate planning, ensuring that resources are planned, aligned and managed effectively to achieve its aims and objectives. • The MTRP Plan and future financial projections are updated on a rolling basis in order to ensure the council is able to take into account the impact of new statutory requirements, funding changes and changing demands. • The MTRP supports the Corporate Plan and the assumptions are adequately reflected in the budget for 2013-14.	Green
Review processes	• The Council produces an annual review of its MTRP and publishes this as an aid to assist long term financial planning. • This is presented to the Policies and Resource Panel for challenge prior to submission and agreement by Council. • The most resent version was upated and presented to the Policies and Resource Panel in November 2012 and approved at the December 2012 Overview and Scrutiny Board.	Green
Responsiveness of the Plan	• As the MTRP is reviewed annually it reflects the main risks facing the Council and is used to make decisions at both Member and operational level. The council is using the MTRP appropriately as part of its long term strategic plans. • The MTRP incorporates downside assumptions– such as reduction in income and the pressures to deliver certain services due to increasing demand.	Green

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Appendix - Key indicators of financial performance

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	• The Council has an understanding of its financial environment at all levels. However, during the year a new Strategic Risk Management system was introduced, currently this only identifies and captures the top 5 strategic risk. Although within these there are some financial risks, this new system has yet to be fully embedded within the Council. • The Leadership Team are fully informed to enable longer term business planning. Members are kept up to date via budget challenge meetings and budget monitoring reports. • The MTRP for 2012-15 sets the approach to be adopted in undertaking the business planning and budget process. This has been approved by Officers and Council and details expected pressures within the budget and estimated funding gaps for the next 3 years. • The Council is currently in the process of identifying the savings required over the next 2 years, currently estimated at £22m. Detailed savings plans have yet to be developed. This has been noted in more detail within the 'Financial Control' section of this report. • The Annual Governance Statement (AGS), which the Council produces on an annual basis, has not identified any significant governance issues in respect of 2012-13. • The Audit Committee provides scrutiny of the Council's governance arrangement.	Green
Executive and Member Engagement	• From detailed review of Council minutes it is apparent that Officers and Members challenge and scrutinise submissions robustly. • The Audit Committee consists of six Members, who attend regularly and provide challenge. Both the Executive Head – Finance (S151) and the Chief Accountant also attend. • The budget setting process includes both internal engagement with Officers and Members as well as external consultation. • External consultation commences in September each year and allows members of the public to have their say on their priorities and the proposals being made by the Council. • External consultations are undertaken by way of public meetings, questionnaires and a series of presentations from both the Council and partner organisations.	Green

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Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	• The Council agreed the required cost savings for 2012-13 in February 2011. These are monitored through quarterly budget monitoring reports, with any variances/slippage explained along with actions to address them. • The MTRP sets the required cost savings to enable the Council to deliver performance in line with its budget. It is approved annually by Council in November/December. The MTRP 2012-13 to 2014-15 was approved by Council in November 2011. • Progress against budget and savings are reported to Full Council throughout the year. These reports consider the budget and savings delivered and any potential issues or risks in achieving the overall position and provide an effective monitoring process.	Green
Budget reporting: revenue and capital	• Detailed financial scrutiny takes place at various levels throughout the Council. These include budget/portfolio holders, Senior Leadership team and Full Council. • The Council has a 4 year Capital Strategy, which included the capital plan, in place covering the period 2012-13 to 2015-16. This focuses on the key policies for the allocation of capital resources to schemes in line with the Council's priorities and statutory responsibilities. • The Capital Strategy was updated and approved by Full Council in February 2012. • Capital expenditure is then monitored along side the revenue budget .	Green

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Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	• The Council has a robust budget setting process, which takes into account views of stakeholders and includes rigorous review by Members, prior to the Mayor recommending a budget for approval to the Council. • The Council manages its budgets and this is evidenced by a good track record in achieving the overall budget and mitigating any overspends identified in year. Although, for 2012-13 £1.293m of uncommitted budget (including £0.9m of earmarked reserves) were used to achieve the year end surplus of £0.4m. • Financial performance is reported quarterly to Members. The budget monitoring reports contain details of the overall budget to date as well as predicted outturn and detailed explanations for any variances. It also contains details of the financial performance of Council's subsidiaries and associates companies and debt collection rates. • Through its business planning process, the Council has a good understanding of its costs and performance and considers different ways of achieving savings through service redesign and activity monitoring to identify areas where services can be provided more effectively and efficiently. • To enable the Council to achieve its priorities and strategies, the Council has reviewed and updated its Medium Term Resource Plan (MTRP).	Green
Performance against Savings Plans	• For 2012-13 the Council identified that it needed to make reductions of £9.367m and set a net revenue budget requirement of £124m. • The Council achieved a year end surplus for the year of £0.4m, in part this was due to the use of earmarked reserves to support service pressures and costs of staff reductions. • The Council has identified £9m additional saving requirement for 2013-14 and are in the process of identifying the savings required for 2014-15. However, detailed savings plans have yet to be developed.	Amber

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Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Key Financial Accounting Systems	• The Council uses 'COA' database for its finance system. This system is updated to ensure that it is able to report effectively on key information required. • Internal Audit completed a review of the main accounting system in 2012/13 as part of their audit plan. They concluded that an assurance opinion of 'Good Standard' could be provided in respect of the systems and processes that underpin the general ledger. • The Council has a good track record of producing its annual accounts, with minimal audit amendments required.	Green
Finance Department Resourcing	• The Council has a strong and stable finance department with key personnel having been in post for a number of years. • The financial statements are always prepared and submitted by the required statutory deadline of the 30 June and are supported by a full set of working payments. • There are currently no vacancies in the finance department.	Green
Internal audit arrangements	• Internal Audit services are provided by Devon Audit Partnership (DAP) which is a shared service arrangement between Devon County Council, Plymouth City Council and Torbay Council. They use a risk-based approach to develop an audit plan that ensures there are sound and adequate internal controls in place across the whole of the Council. • Their revised audit plan for 2012/13 was for a total of 1,237 days. This included reviewing the Council's financial systems. As at the end of March 2013 a total of 1,199 days had been delivered. • During the year an independent review was undertaken by Hertfordshire Shared Internal Audit Services to assess DAP against the internal audit standards which are based on the mandatory elements of the Institute of Internal Auditors (IIA). DAP were assessed as operating in compliance with the IIA standards and the summary findings were reported to the March 2013 Audit Committee.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
External audit arrangements	• From 2012/13 the provision of External Audit transferred from the Audit Commission to Grant Thornton as part of a five year contract let by the Minister for Communities and Local Government. • The External auditors made no significant recommendations in its previous years Annual Audit Letter or Annual Governance Report.	Green
Assurance framework/risk management	• The AGS reflects fairly the overall assurance framework in place. In 2011-12 the Council implemented improvements in the production and presentation of the AGS and this has continued in 2012-13. There is a rigorous review process in place, involving Officers and Members, prior to approval by the Audit Committee. • The Council have developed and introduced a new electronic risk register. However, at this point in time it only identifies and captures Strategic risks (5 of them). This will be monitored by Directors on a monthly basis with quarterly reports to the Senior Leadership Team and the Audit Committee. A training programme for staff is currently being developed for 2013-14 using the Council's I-learn intranet training system.	Amber

1 Executive Summary
2 Key Indicators
3 Strategic Financial Planning
4 Financial Governance
5 Financial Control

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

Working Capital - Benchmarked

Definition

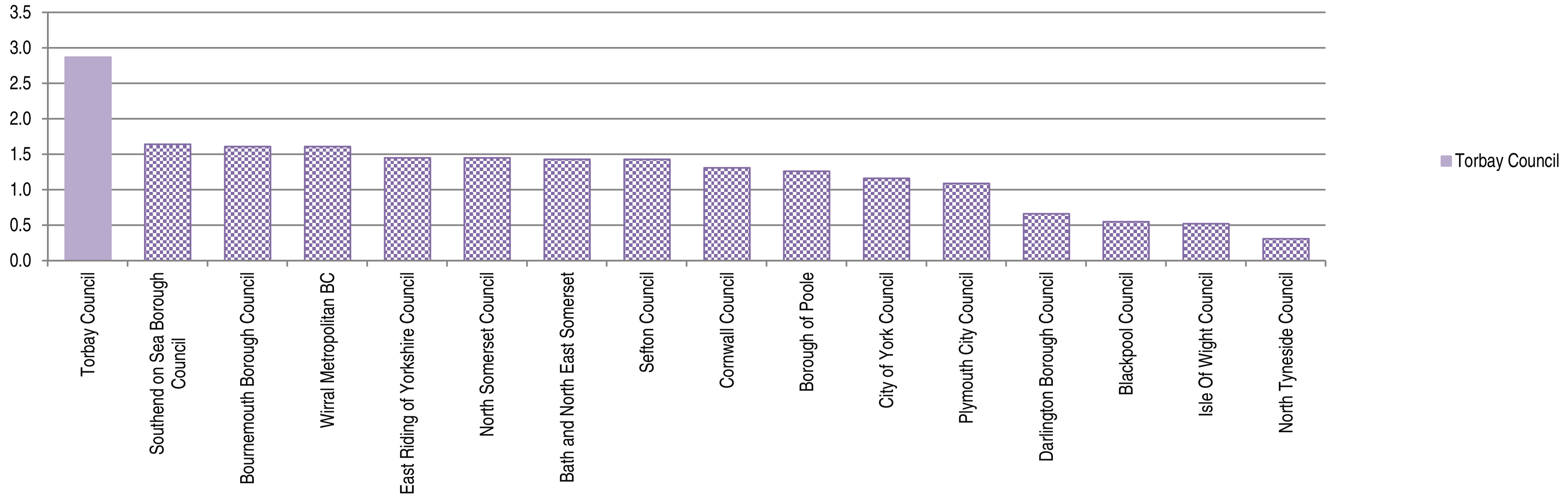
The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Torbay's working capital ratio has increased from 1.98 in 2008 to 2.87 in 2012. The Council is therefore above the preferred range of 2:1. However, it should be noted that this due to a significant (£77.5) level of short term investments, which will reduce over the coming years as the funds will be spent on capital schemes.

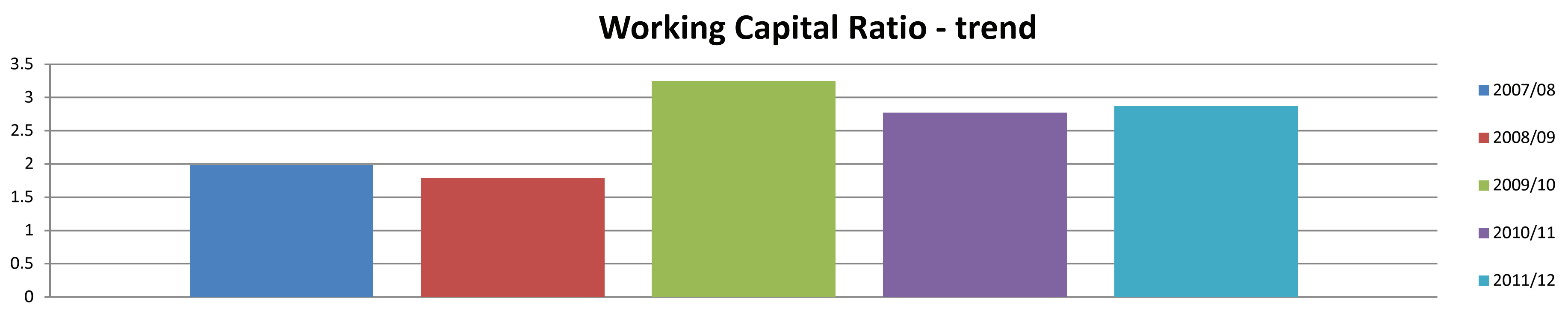
Working capital will come under increasing pressure during the next few years and will need to be carefully monitored.

Working Capital ratio - 2011-12



Source: Audit Commission's Technical Directory

Working Capital - Trend



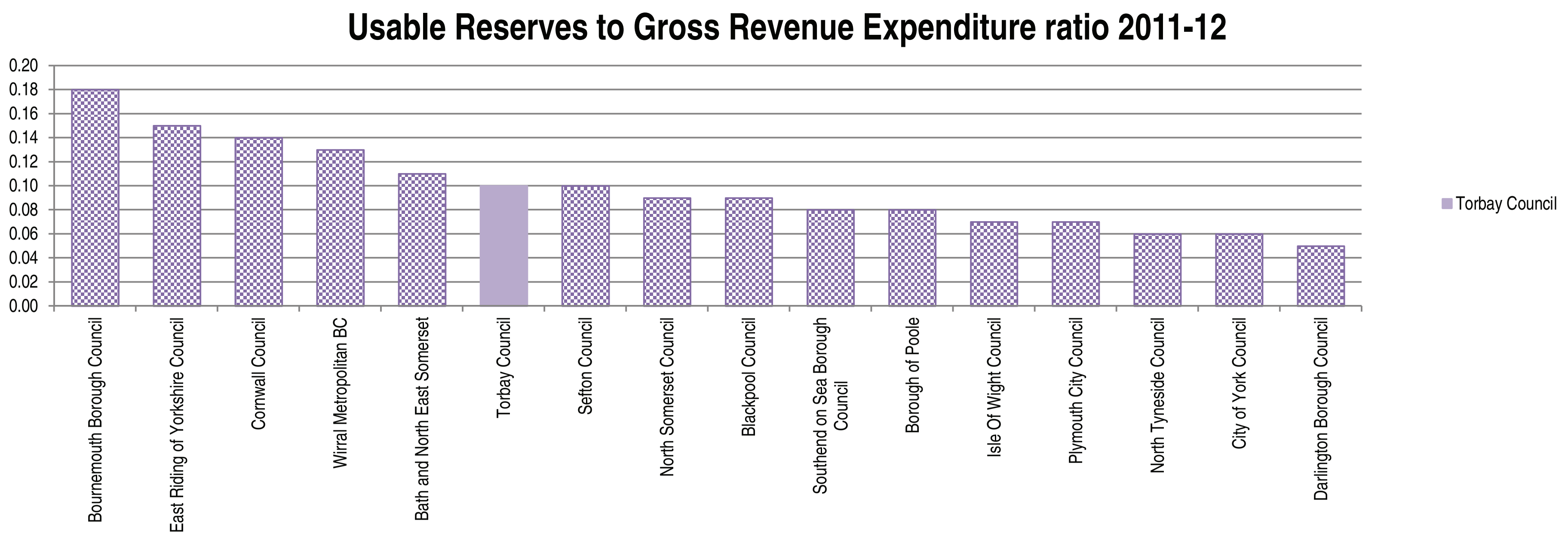
Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Useable Reserves - Benchmarked

Definition
This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings
Between 2008 and 2012 Torbay's useable reserves have remained constant with very little movement.

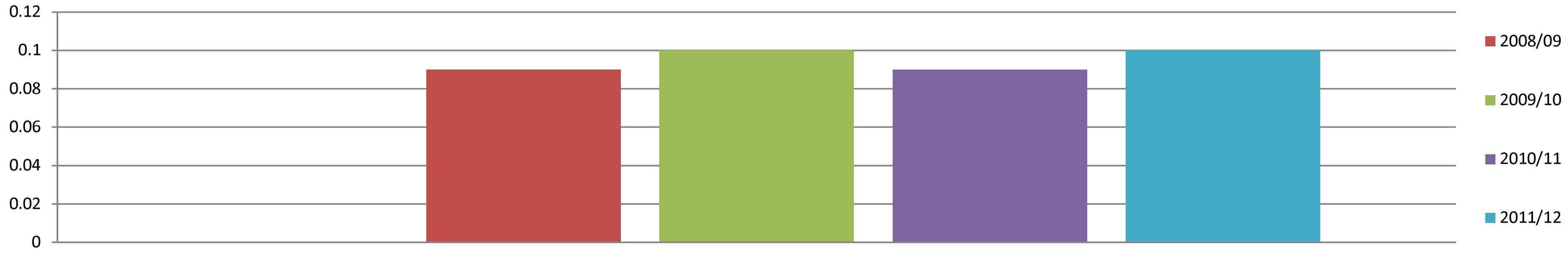


Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Usable reserves - Trend

Usable Reserves to Gross Revenue Expenditure ratio - trend



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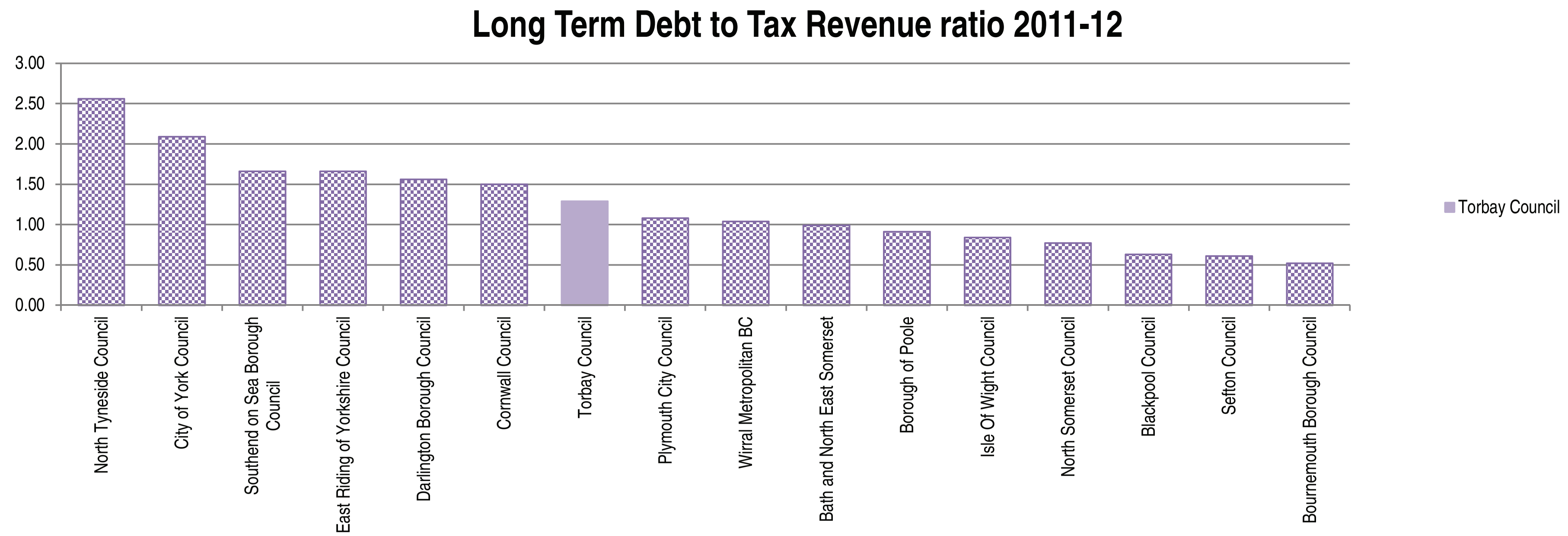
Source: Audit Commission's Technical Directory

Long Term Borrowing to Tax Revenue - Benchmarked

Definition
Shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

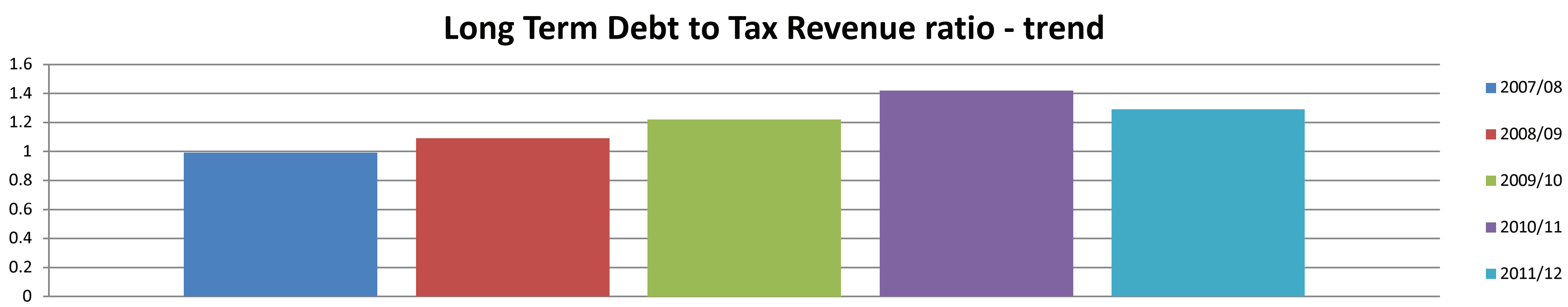
Findings
Torbay's ratio of 1.29 indicates that it has long term borrowing which exceeds tax revenue by nearly 1.3 times. Torbay is seventh in comparison to the benchmark group, although just under half of the authorities have a ratio greater than1.5, indicating that Torbay is reasonably consistent with other authorities.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Borrowing



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

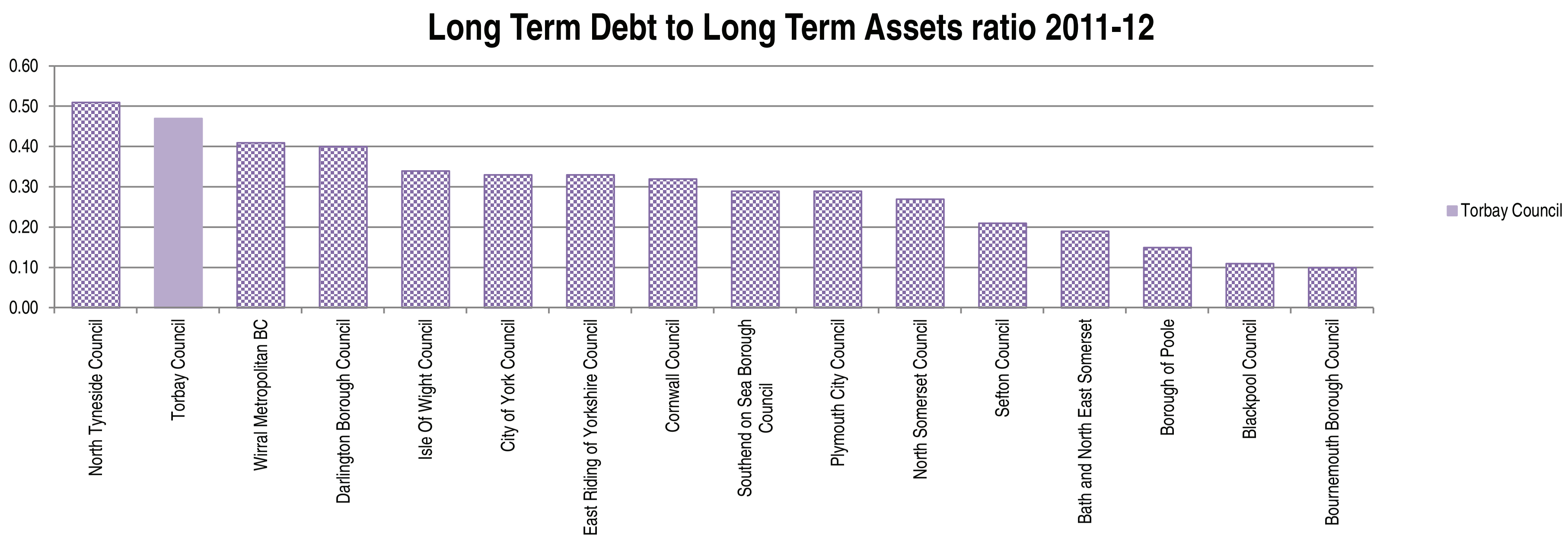
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long tem borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

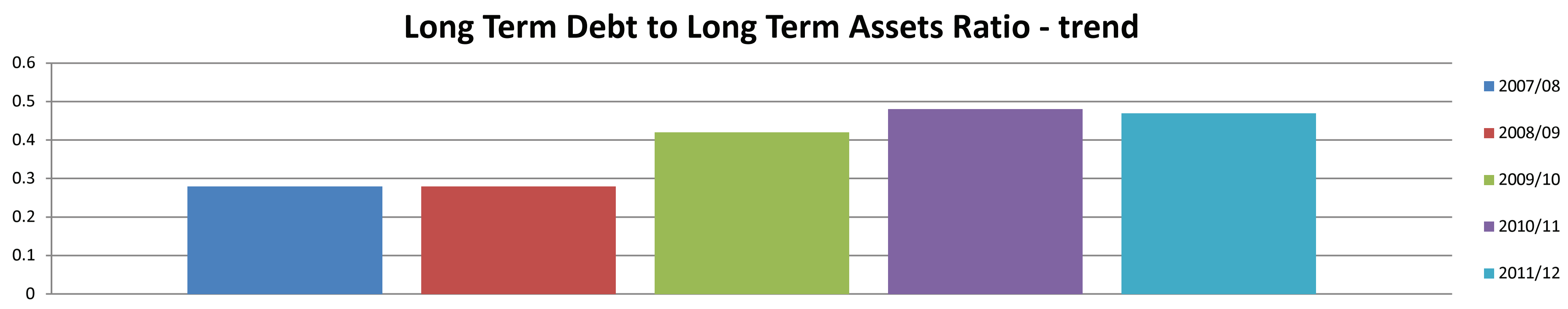
Torbay's most recent ratio of 0.47 shows that the Council's long term borrowing represents approximately half of its long term assets - i.e. long term borrowing does not exceed its long term assets. In comparison to other authorities in this benchmarked group, Torbay has a higher than average long term borrowing to long term assets ratio.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Long-term borrowing to Long-term assets

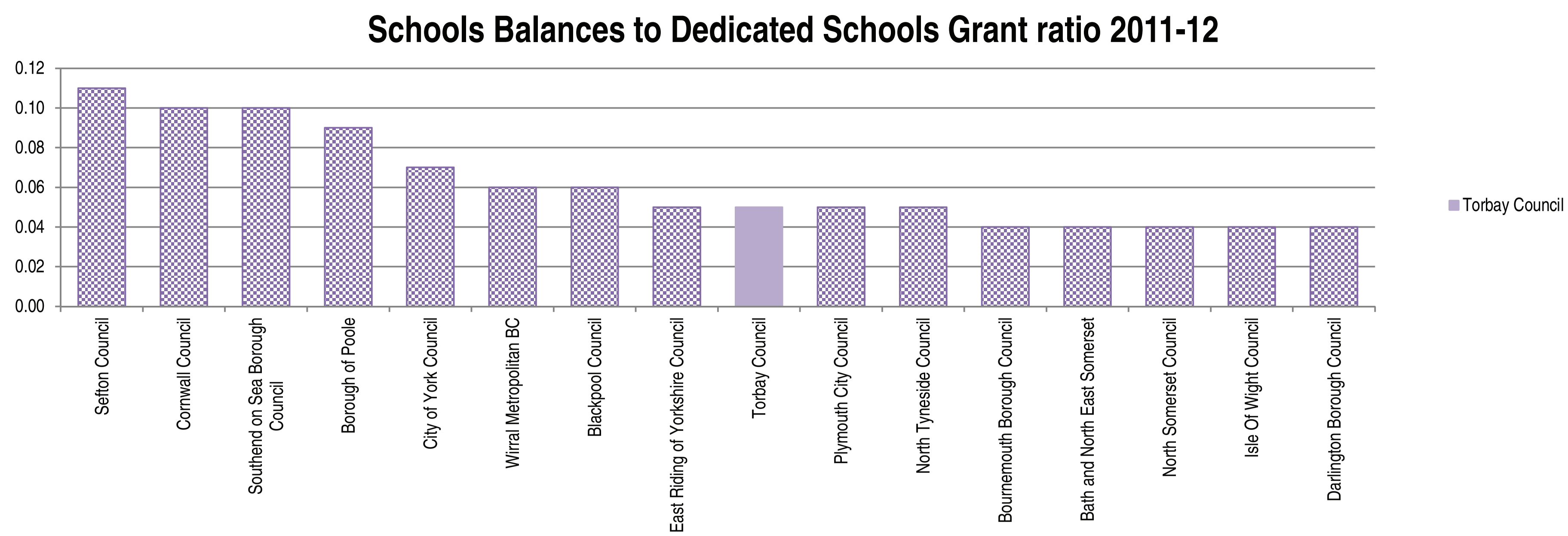


Source: Audit Commission's Technical Directory

Schools balances to DSG allocation - Benchmarked

Definition
This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

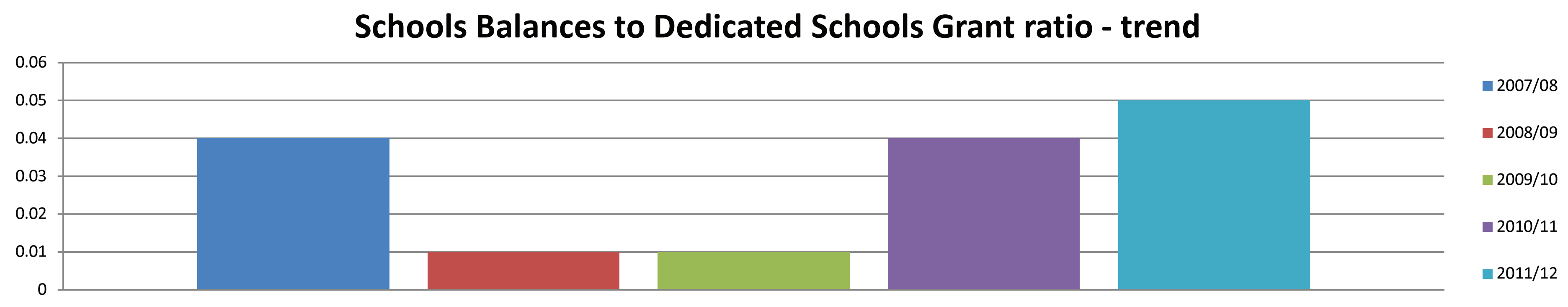
Findings
Torbay's ratio has increased each year over the last thee years. This is in line with the broad trend of the benchmark group. Torbay has consistently remained one of the authorities with the one of the lowest ratios over this three-year period. Torbay's balance of 5% for 11/12 is in the second lowest group, with the lowest being 4%.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Schools balances to DSG allocation



Source: Audit Commission's Technical Directory

Grant Thornton

grant-thornton.co.uk

Meeting: Audit Committee **Date:** 25 September 2013

Wards Affected: All Wards

Report Title: Statement of Accounts 2012/13

Executive Lead Contact Details: Mayor Oliver

Supporting Officer Contact Details: Martin Phillips – Chief Accountant, martin.phillips@torbay.gov.uk

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1. Purpose and Introduction

1.1. The Account and Audit Regulations 2011 require approval of the Council's Statement of Accounts for the year ended 31 March 2013 by a committee of the Council before 30 September 2013. The Accounts show a true and fair view of the financial position of the Council's income and expenditure in 2012/13 and its assets and liabilities as at 31st March 2013.

2. Proposed Decision

2.1 That Audit Committee review the accounts and consider the External Auditor's report and opinion on the accounts.

2.2 That following 2.1, the Council's Statement of Accounts for 2012/13, as set out in pages 15 to 136 of Appendix 2 to this report, be approved and;

2.3 That following approval in 2.2 above, the person presiding at this meeting shall sign and date the accounts on behalf of the Council, to represent the completion of the Council's approval process of the accounts, in the "Statement of Responsibilities for the Statement of Accounts" shown on page 17 of the Statement of Accounts

2.4 That the Letter of Representation to Grant Thornton from the Council in relation to the 2012/13 Statement of Accounts, as set out in Appendix 1 to this report, be approved.

3. Reasons for the Decision

3.1 The Account and Audit Regulations 2011 require approval of the 2012/13 Statement of Accounts for the year ended 31 March 2013 by a committee of the Council before 30 September 2013. For Torbay the Audit Committee can "on behalf of the Council approve the annual statement of accounts" – report 156/2008 refers. In addition the Regulations require that the person presiding at the meeting shall sign and date the accounts. As a key part of this process the

Audit Committee will consider these Accounts prior to approval, and will also receive and consider the External Auditor's report and opinion on the accounts.

3.2 As required by the Account and Audit Regulations 2011 the Accounts were "authorised for issue" by the Council's Chief Finance Officer by 28th June 2013 and have been available on the Council's website since that date. The accounts, as required by the Regulations, were available for public scrutiny for 20 working days during July and August 2013. The Council's External Auditor was also available from a specified day to deal with any representations from the public.

3.3 The annual external audit of the accounts by the Council's appointed auditor, Grant Thornton, started July 2013 and was substantially completed by mid August in line with the agreed timetable. This is the first audit undertaken by Grant Thornton and they have been appointed for a minimum period of five years. Grant Thornton will report on the Accounts to Audit Committee in at this meeting which will enable members to consider the External Auditor's report in their review and approval of the Accounts.

3.4 The Accounts presented to the Audit Committee are the Accounts as authorised for issue in June 2013, updated for any issues raised by the External auditor or any adjustments by Council officers up to early September 2013. If any subsequent alterations in respect of the accounts, as presented to this Committee, are recommended by the External Auditor these will be updated in the Accounts, along with any minor changes agreed with the External Auditor, prior to publication at the end of September 2013.

3.5 Council, in July 2013, considered specific reports on both revenue and capital spending during the last financial year and those reports are consistent with the financial information in the Statement of Accounts. The final Revenue outturn for 2012/13, after transfers to and from earmarked reserves, was a surplus of £0.4m which was transferred to the General Fund reserve.

3.6 Audit Committee, in June 2013, considered the Annual Governance Statement which has to be published with the Statement of Accounts so has been included as part of appendix 2.

Paul Looby
Chief Finance Officer

Contact Officer: Martin Phillips
Telephone no. 207285

Supporting information

Introduction and history

A1.1 The principal legislation relating to the keeping of local authority accounts is contained in the Local Government and Housing Act 1989 and the Accounts and Audit Regulations 2011. Local authority accounts are required to present a "true and fair view" of the financial position of the authority. The audit requirements of accounts are contained in the Audit Commission Act 1998.

A1.2 The Account and Audit Regulations 2011 regulations require that the responsible financial officer of the Council shall sign by 30th June each year the Statement of Accounts and certify that it presents a "true and fair" view of both the financial position of the Council at the end of the year to which it relates and its income and expenditure. The Council's responsible financial officer, Paul Looby, has certified the Accounts at page 18.

A1.3 The Regulations also require approval of the Statement of Accounts by a committee of the Council before September 30th each year. For Torbay this is the Audit Committee. In addition the Regulations require that the person presiding at this meeting shall sign and date the accounts.

A1.4 The Statement of Responsibilities for the Statement of Accounts to be signed by the person presiding at this meeting is on page 17 within the Statement of Accounts. The intention behind this requirement is that the signature of the person presiding at the meeting shall formally represent the completion of the Council's approval process of the accounts.

A1.5 The Council as part of the process of the external auditor's opinion on the Accounts is also required to complete a letter of representation to confirm that all relevant information has been disclosed and made available to the auditor. This letter for 2012/13 is shown in appendix 1.

A2. Whole Government Accounts Agenda

A2.1 The requirement of the Accounts and Audit Regulations 2011 to "authorise for issue" a (pre audit) copy of the Council's Accounts by 30th June is part of the Whole Government Accounts (WGA) agenda. This is to ensure that all public sector bodies produce their own accounts by 30th June each year. From these accounts each body is required to complete an audited WGA return which excludes all transactions and balances with other bodies, so that HM Treasury can produce a set of accounts that represents the income, expenditure, assets and liabilities of the whole public sector.

A2.2 These requirements place pressures on finance and service staff to produce the information required in a short time period. It should be noted that although the Statement of Accounts is produced by Financial Services the support of service staff, who order, authorise and control income and expenditure is vital in this process. The Chief Finance Officer and his staff, again, recognise the support given by service staff and without their support this timetable would not have been met.

A3. Group Accounts and Partnership Working

A3.1 A key issue that affects the closure of the Council's accounts is the requirement to include the accounts of other bodies where the Council has control or significant control.

A3.2 The Council owns, or has influence on, a number of companies including TOR2, PLUSS, Careers South West, English Riviera Tourism Company, Torbay Economic Development Company and new for 2012/13 the Oldway Mansion Management Company. These are accounted for, if material, as subsidiary or associate companies depending on the level of Council's control/ownership.

A3.3 This places additional work on finance staff, both within the Council and within the companies to produce information on an International Financial Reporting Standards (IFRS) basis in a short period to meet the deadline of 30th June. This is a particular pressure for the companies as the timetable for Councils to issue accounts is six months earlier than the timetable for Companies to issue accounts. The Chief Finance Officer and his staff, again, recognise the support given by staff within these companies and without their support this timetable would not have been met.

A3.4 The partnership for Adult Social care with the Torbay and Southern Devon Health and Care NHS Trust requires the Trust to provide final account information to the Council promptly for inclusion within its accounts. The information has always been provided within agreed timetables.

A3.5 In addition the Council has to disclose details of all arrangements with other bodies that could be classified as a related party or pooled budget arrangement such as the Devon Audit Shared Services Joint Committee. It is vital that the Council has an understanding of all the "partnerships" and joint working arrangements it has entered into, particularly in terms of legal issues, financial control and any risks and/or rewards the Council has from the arrangement.

A4 2012/13 Statement of Accounts

A4.1 The Accounts are included within the "Financial Reports and Accounts for the Year 2012/13" as shown in appendix 2. The Accounts are produced in line with IFRS and "proper practice" issued by CIPFA. As a result it is a rather technical document with its content and format largely prescribed by guidance and legislation.

A4.2 If any Member would like any questions answered on interpreting the Accounts and IFRS you can contact Martin Phillips or Paul Looby who will endeavour to help. The contact details are in the heading to this report.

A4.3 The other information included in the Financial Report, i.e the Operating and Financial Review and Annual Governance Statement that was presented to Audit Committee in June 2013, are published along with the Accounts.

A4.4 In addition to encourage wider understanding of the Council's accounts summary financial information will be in the Council's annual report for 2012/13.

A4.5 The Council's accounting policies, which underpin the information within the Statement of Accounts, are reviewed on an annual basis by the Chief Finance Office to ensure that the selection of the accounting policies is consistent with the latest guidance and standards (IAS8). The Council's Accounting Policies are shown within the Statement of Accounts on pages 96 to119 and are part of the approval of the Accounts.

A5. Other Final Accounts Requirements

A5.1 The Approval of the Council's statutory Statement of Accounts is an important part of the final accounts process; however there are other requirements that relate to 2012/13 year end. These include:

- WGA Return, which will be subject to external audit
- Revenue and Capital Central Government returns on 2012/13
- Schools related "section 252" return
- Grant claims which will be subject to external audit
- The publication of the Statement of Accounts
- Inclusion of financial information in Council's annual report
- Publishing (and advertising) the Accounts and completion of the audit

A6 Local Audit and Accountability Bill

A6.1 The bill that changes the local audit regime for public sector bodies was part of the 2013 Queens Speech and has recently been debated by the House of Lords before being debated by the House of Commons. Central government have published a "Plain English Guide" to the Bill which can be accessed on the following link.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/198057/Local_Audit_and_Accountability_Bill_-_plain_English_guide.pdf

A6.2 The Plain English Guide makes the following statements.

"The Local Audit and Accountability Bill delivers the government's commitment to abolish the Audit Commission and will put in place a new local audit and accountability framework for local public bodies in England. This framework allows local bodies to appoint their own independent external auditors..... As a result, audit services will be better matched to local bodies' individual needs.

The scope of the audit will remain very similar to the current audit, and auditors will continue to be required to comply with a code of practice and have regard to guidance. In the new framework, these will be developed by the Comptroller and Auditor General of the National Audit Office".

A6.3 An update will be provided to members once the draft Bill is passed into legislation, however the Audit Commission's appointment of Grant Thornton as the Council's auditor for a minimum period of five years reduces any immediate impact of this bill on the Council.

A7 Possibilities and Options

A7.1 Approval of the Accounts by 30th September 2013 is a statutory requirement.

A.8 Preferred Solution /Option

A8.1 As set out in the recommendation.

A.9 Risks

A9.1 Impact on Council's reputation and negative external auditor comments if Accounts are not approved by 30th September.

A10 Consultation

A10.1 The Accounts have been on the Council website since June 2013 and there has been an advertised public inspection period.

Appendices

Appendix 1 – Letter of Representation
Appendix 2 – Financial Reports and Accounts for the year 2012/13

GrantThorntonUKLLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

25th September 2013

Dear Sirs

Torbay Council Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of Torbay Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.

viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.

ix The financial statements are free of material misstatements, including omissions.

x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xi We believe that the Council’s financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council’s needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xiii We have communicated to you all deficiencies in internal control of which management is aware.

xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.

xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xvi We have disclosed to you, if we aware of, all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xvii We have disclosed to you, if we are aware of, all information in relation to allegations of fraud, or suspected fraud, affecting the Council’s financial statements communicated by employees, former employees, regulators or others.

xviii We have disclosed to you, if we are aware of, all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was by the Council's Audit Committee at its meeting on 25th September 2013.

Signed on behalf of the Council

Name	Councillor Alan Tyerman
Position	Chair – Audit Committee
Date	25th September 2013

Financial Services

FINANCIAL REPORTS & ACCOUNTS

FOR THE YEAR 2012/13

INCLUDING

Operating and Financial Review 2012/13
Statement of Accounts 2012/13
Annual Governance Statement 2012/13

Torbay Council, Town Hall, Castle Circus, Torquay, Devon TQ1 3DS

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OPERATING AND FINANCIAL REVIEW FOR THE 2012/13 FINANCIAL YEAR

Welcome

Welcome to Torbay Council's Statement of Accounts ("The Accounts") for the 2012/13 financial year ending 31st March 2013. The Accounts are compiled in accordance with relevant legislation and guidance – primarily International Financial Reporting Standards (IFRS) and the CIPFA Accounting Code of Practice ("the Code").

The Accounts show a "true and fair" financial picture of the Council's total income and expenditure in the 2012/13 financial year and its balance sheet as at 31st March 2013, detailing all the Council's assets and liabilities with supporting notes to add further explanation. The Accounts are prefaced by this Operating and Financial Review which aims to provide a narrative outline on the financial position of the Council for both 2012/13 and in future years.

The Council publishes an Annual Report that provides a more detailed commentary of the Council's performance. The latest reports can be found on the Council's website on the following link:

http://www.torbay.gov.uk/index/yourcouncil/electedmayor/annualreport.htm

Pen Picture of Torbay

Torbay Council is a unitary Council in the South West of England serving the three coastal towns of Torquay, Paignton and Brixham with a population in excess of 131,000, of which 62,000 are between the ages of 18 and 64. Further data about the Torbay area can be found on the Council's website on the following link

http://www.torbay.gov.uk/index/yourcouncil/factsfigures

As a unitary Council, it is responsible for a wide range of services including schools, social care, transport, culture, housing and waste. The Council's budget digest outlines the services that the Council provides and is available on the Council's website.

http://www.torbay.gov.uk/index/yourcouncil/financialservices/budget/budgetdigest201213.htm

Torbay Council has an elected Mayor as well as 36 elected ward councillors. The elected Mayor is Gordon Oliver. The majority of the 36 ward councillors are Conservative party candidates. The next full Council and Mayoral elections are due in May 2015.

Significant Events in 2012/13

On a national level changes in funding, services and legislation by the Coalition Government continue to impact on the Council, its partners and residents.

The Council continued to plan, and work with, reduced funding levels for both revenue and capital from Central Government for 2012/13 and future financial years as announced in the 2010 Comprehensive Spending Review. The 2012/13 budget approved by Council required £9 million of budget reductions and a further £9m was required for 2013/14.

In September 2012 the Council accepted the voluntary redundancy of the Council's Chief Executive. The Chief Executive post was replaced, on an interim basis, by a restructure of the Council's senior management including a part time Chief Operating officer. In February 2013 Council agreed to another restructure which is due to be in place during 2013/14.

Council schools continued to convert to Academy status. In Torbay, by 31st March 2013, a total of 15 schools had converted. 6 schools converted in 2012/13 and a further 3 schools due to convert in 2013/14, and are now fully independent of the Council.

The Council continued to reorganise services to meet both the impact of its reduced funding and to provide better services. In 2012/13 the Council's childrens centres function was transferred to an external provider, National Childrens Homes charity and the Council's nurseries were transferred to an external provider, Mama Bears. Both reorganisations involved the transfer of staff and the leasing of property to the new provider at peppercorn rents.

As a result of the NHS reforms the Council's provider for Adult Social Care Torbay Care Trust was split from April 2012 into two bodies – NHS Torbay and the Torbay and Southern Devon Health and Care NHS Trust. The Trust continued to provide the adult social care function on behalf of the Council.

In 2012/13 the Council continued to plan for more changes arising from central government that impact from April 2013. This includes the new functions the Council is responsible for from April 2013; the social fund from the DWP and Public Health from the NHS. Other changes include the reform of Council funding with the introduction of a NNDR retention scheme and the replacement of Council Tax Benefit with a local Council Tax Support scheme. During 2013/14 the provider of adult social care is expected to change as the Trust will be "acquired" by a NHS Foundation Trust.

Purpose of Financial Review and Statement of Accounts

The purpose of the Statement of Accounts included in this document is to present to the reader a detailed overview of the Council's financial position as at the end of March 2013 giving information as to the Council's assets and liabilities at a point in time (31st March 2013) and detail on the Council's financial performance during 2012/13. This information is, where material, supported by notes to the accounts. The Accounts and Audit Regulations 2011 require a Statement of Accounts to be produced for each financial year by end of June.

The format of this Financial Report is this Operating and Financial Review followed by the Statement of Accounts including the Core Financial Statements for 2012/13, for both the Council's "Single entity" and "Group" Accounts" and the supporting notes to those core financial statements and Collection Fund Summary Account (for the accounting for the collection of NNDR and Council Tax) and lastly the Annual Governance Statement.

The form and content of these accounts is highly prescribed, by the CIPFA Code of Practice, and is produced on an International Financial Reporting Standards (IFRS) basis. The classification of costs, income and services under IFRS and the "Code of Practice" is different to the Council's internal financial reporting.

External Audit and Public Inspection of the Accounts

The Accounts are subject to a detailed audit by the Council's external auditor (Grant Thornton). Under the Accounts and Audit Regulations the Accounts, with its supporting documents, are available for public inspection. Full details are available from Financial Services at Torquay Town Hall or on the Council's website at:- http://www.torbay.gov.uk/index/council/financial_services/accountsinspection.htm

Annual Governance Statement

The Council, under the Accounts and Audit Regulations must approve an Annual Governance Statement prepared in accordance with proper practices in relation to internal controls. The 2012/13 statement has been included within this Financial Report, but is not part of the Accounts and is outside the external auditor's opinion on the Accounts.

Rounding

The figures in these accounts are presented to the nearest £100,000 – (i.e. £0.1 million)

Overview of Financial Performance

This was again a very challenging financial year for the Council with the requirement to make reductions of £9m as well as facing increasing demand for social care services, both adults and childrens. Childrens social care, due primarily to rising numbers and costs, was significantly over its budget allocation by £3.8 million before application of earmarked reserves. In addition the Council incurred £1.5m of costs associated with staff redundancies resulting from reductions in funding.

Despite these significant service pressures, the Council's financial performance in 2012/13 still resulted in a surplus for the year of £0.4m, in part due to the use of earmarked reserves to support service pressures and costs of staff reductions. This was also a result of careful financial management including a "freeze" on staff recruitment and a moratorium of non essential purchasing. These measures, combined with the use of the Council's contingency, some earmarked reserves, some unallocated 2012/13 grants and underspends in other services, resulted in the Council staying within its 2012/13 budget and for this officers and members should be commended.

Given the reduction in core Council funding for both revenue and capital expenditure, the submission of bids for funding becomes more important. In the year the Council was successful in a number of bids including £0.5m for "green deal" initiatives and £2.8m for a Ferry link across Torbay and £1.4m for a coastal communities' scheme.

As the majority of the reduced level of capital funding from central government is now non-ringfenced, from April 2012 the Council chose to manage its capital plan as a whole to ensure the limited capital resources were allocated to the Council's priority schemes.

The Council's gross expenditure in the year was in the region of £400m for revenue (day to day) spend and £19 million for capital (spend on long term assets such as roads and schools).

The Council's Comprehensive Income and Expenditure account (I&E) is the Councils income and expenditure presented on an IFRS basis. This includes earlier recognition of grants, based on conditions attached to the grant rather than matching the grant to expenditure and a number of "non cash" items such as depreciation and pension assumptions, which should then allow the Council's accounts to be comparable to other sector accounts. The total deficit for this account for 2012/13 is a deficit of £62m. The key reason for this deficit is a loss on asset disposals of £57m arising from the transfer of schools from the Council to become Academy schools.

The total from the Comprehensive Income and Expenditure statement is reflected in the Movement of Reserves statement which then adds the impact of any reserve movements to usable reserves and unusable reserves to get to the "bottom line" Council position for 2012/13. Within this is the reversal of a number of accounting entries made under IFRS that appear in the Council's Comprehensive Income and Expenditure statement such as depreciation and pension assumptions, which are allowed, under statute, to be reversed to ensure that these entries do not have a "cash" impact on the Council Tax payer. After these adjustments the Council's net outturn for the year was a £0.4m surplus which matches the Council's internal financial reporting position. This statement shows that the Council's usable reserves had a net decrease of £4.5 million. This was primarily a reduction in capital reserves to fund capital expenditure of £1.4m in year and a net reduction in revenue reserves of £3.1m to fund revenue expenditure in year.

The Council also spent £18.5 million on capital projects including schemes such as Torre Abbey enhancement, Barton Primary school, Mayfield school, Preston Primary school and Princess promenade enhancement. This total is lower then previous years and reflects, in part, the reduced capital resources from central government in the 2010 Comprehensive Spending Review to support Council's capital expenditure. In addition the contract was finalised for the conversion of Oldway Mansion into a boutique hotel by 2015.

On the balance sheet there were some significant changes in year. The major change was a £57 million reduction in the value of the Council's property assets related to the transfer of schools to academy status. Any borrowing or other liability associated with capital expenditure on these assets in previous years remains with the Council. As a result of revised capital investment plans the Council continued to reduce its long term borrowing: by £5 million during the year. The Council's general fund reserve increased by £0.4 million to £4.4 million, which is equivalent to 3.5% of the Council's 2013/14 net revenue budget which is considered to be a prudent level.

Overall the Council's net assets were lower than the previous year by £62m, primarily due to £60 million of property assets written off on disposal, of which £57m related to the transfer of schools to academy status at nil consideration.

Torbay Group Accounts – Overview of Financial Performance

The Council has interests in a number of companies. An overview of these companies financial performance in the year is shown in the table below. The accounts for these companies are consolidated with the Council's (single entity) accounts, if material, to produce the Council's Group Accounts attached to the rear of these Accounts.

Entity	Assessed Relationship	Council Shareholding /Control	Turnover £m	Surplus/(Deficit) for year £m	Net Equity £m
Torbay Economic Development Co.	Subsidiary	100%	£4.3m	(£0.1m)	£3.1m
English Riviera Tourism Company	Subsidiary	100%	£0.9m	0	(£0.2m)
Oldway Management Co.	Subsidiary	100%	£0.1m	0	0
TOR2	Associate	19.99%	£15.4m	£0.5m	(£1.9m)
Careers SW	Associate	25%	£13.8m	(£2.9m)	(£6.7m)
PLUSS	Associate	25%	£27.4m	(£0.2m)	£0.6m

Key Financial Ratios

The following "basket" of rates are to provide a snapshot of the financial performance of the Council.

	2011/12	2012/13
Uncommitted General Fund Balance / Annual Budgeted Net Expenditure	3.2%	3.5%
Movement to/(from) the Uncommitted General Fund Balance	£0m	£0.4m
Council Tax In-year collection rate	95.8%	96.1%
Council Tax Income / Overall Funding	48%	50%
Actual outturn compared to budget (before Council approved reserve movements per outturn reports)	(£0.441m)	(£1.292m)
Actual outturn compared to budget	(0.4%)	(1.0%)
Capital Financing Requirement	£137m	£136m
External Debt levels (principal)	£153m	£148m
Ratio of net financing costs to net revenue (excluding revenue contributions to capital).	7.8%	7.4%

Forward Financial look

The Council has a rolling three year "Medium Term Resource Plan" which supports service planning for future years. There are a number of significant issues that are impacting on the Council, its finances and its service delivery. These include:

Ongoing impact of the Coalition Government's Comprehensive Spending Review announced in October 2010 which set a target of reducing Council funding by up to 30% over four years 2011/12 to 2014/15. Further reductions to those previously announced are expected during the 2013 Comprehensive Spending Review. The DCLG as part of the 2013/14 funding announcement has announced that the Council's indicative 2014/15 revenue support grant will be cut £7.5m in cash terms. On 26th June 2013 the Chancellor announced that a further 10% cut to local government funding for 2015/16 which will be included in future revisions to the Council's Medium Term Resource Plan.

Continued ongoing impact of the economic conditions with continued higher levels of demand for some services such as housing and council tax benefit plus reduced income levels from other services such as lower asset disposal values and from tax collection.

Ongoing impact of the demographic trends within the Council area, such as an increasing demand for adult and in particular for child social care plus changes in pupil numbers throughout the area changing demand for school places.

The Government has introduced significant reforms to Council funding for 2013/14 onwards. Changes include Councils retaining a proportion of business rates (NNDR) income locally (49% for Torbay) and then funding Councils by a scheme of top and tariff funds rather than passing the money into a national pool for allocation based on relative need. Increasingly core Council funding is being linked to development with incentives to Councils to promote growth with the (part) retention of business rate growth above inflation (RPI) and the new homes bonus grant linked to the number of new homes being built.

Council funding is likely to be further reduced at some, point in the future as the grants the Council is receiving for limiting Council tax increases to zero may be removed after 2015/16 resulting in a cash shortfall in future years. Similar the additional NHS funding the Council has been receiving to support social care (S256 funds) may not continue in future years.

The combination of significantly reducing funding and rising demand is a significant challenge for the Council as, to achieve these levels of reductions, this will have a major impact on the quantity and quality of services the Council will be able to provide in the future.

The Coalition Government has introduced a range of new legislation which impact on public services in Torbay. These include:

Transfer of schools from Councils to become Academy schools funded direct from central government. These schools are independent of the Council so their assets, income and expenditure will not form part of the Council's accounts. By the end of 2013/14 it is likely that all secondary schools in Torbay will have become Academy schools. Council funding will be reduced to reflect the lower number of schools managed by the Council.

Reform of the Benefit System includes the phased introduction of the Universal Credit from 2013, which is expected to be administered on a national basis. This will replace a number of benefits including the Council administered Housing Benefit. The Council currently pays over £60m of this benefit each year with the associated staff and IT support.

For April 2013 the Council has introduced a local scheme for Council Tax Support to replace the Council Tax Support scheme. Central Government has given Councils the flexibility to set a local scheme, (with the caveat that certain groups are protected from any reduced entitlements), however the Council's funding for this benefit was reduced by over 10%.

Under the National Health reforms the commissioning and delivery of NHS services will continue to change. In Torbay during 2013/14, Torbay and Southern Devon Health and Care NHS Trust, who the Council currently commission to provide adult social care is expected to be acquired by a NHS Foundation Trust. The public health function of primary care trusts is to transfer to Councils from April 2013, with a £7m ring fenced grant coming to the Council. In addition the Social Fund function is also been transferred from DWP to Council's from April 2013 with a £0.7m grant.

There are a number of other central government initiatives that will impact on the Council in the future ranging from the introduction of a Community Infrastructure Levy to the Localism Act which will encourage local communities to have a greater say in local services – maybe even running some Council services themselves.

Revenue Budget:

The Council has established procedures for reporting financial information. In addition to internal monitoring, where in some more volatile budgets the monitoring is weekly but mostly monthly, the Council reports its revenue and capital financial performance on a quarterly basis to its Overview and Scrutiny Board and to Council. These reports can be accessed on the Council's website and looking at Council reports.

Funding

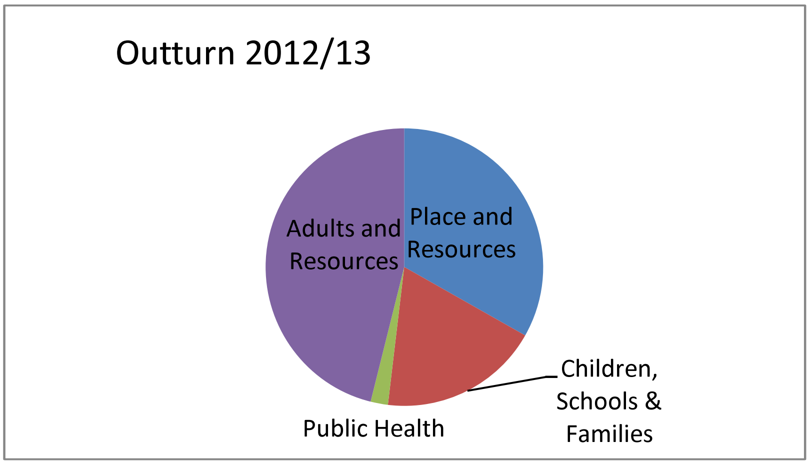
In February 2013 the Council set a budget for 2012/13 of £124 million, which was to be funded as shown in the table below. This resulted in a zero percent increase in the level of Council Tax.

	2011/12	**2012/13**
Net Budget Requirement	£125m	**£124m**
Local Services Support Grant	0	**(£1.0)**
NNDR (from national pool)	(£47m)	**(£58m)**
Revenue Support Grant	(£15m)	**(£1m)**
Council Tax Payers	(£63m)	**(£64m)**
Band D Council Tax – Torbay Council Only	£1,261.17	**£1,261.17**
Band D Council Tax – including Police, Fire and Brixham Town Council	£1,517.69	**£1,523.79**

Expenditure

In July 2013 the Council received a revenue outturn report detailing income and expenditure in 2012/13 and reasons for any variances. The report can be obtained from the Council's website. The summary of budget and expenditure by service in 2012/13 as presented in that report is shown below.

Net Revenue Expenditure 2012/13 by Directorate



Net Revenue Expenditure 2012/13

Council Services	Revised Budget £000's	Outturn £000's	Net Over /(Under) spend £000's
Place and Resources			
Residents and Visitors	9,034	9,158	124
Waste and Cleaning	11,142	10,833	(309)
Spatial Planning	5,310	5,508	198
TDA - Clientside	2,639	2,597	(42)
TDA - TEDC	1,721	1,722	1
Torbay Harbour Authority	0	0	0
Business Services	1,986	1,706	(280)
Finance	10,290	9,107	(1,183)
Sub Total	**42,122**	**40,631**	**(1,491)**
Children, Schools & Families	20,456	22,922	2,466
Sub Total	**20,456**	**22,922**	**2,466**
Public Health			
Public Health	0	0	0
Community Safety	2,628	2,455	(173)
Sub Total	**2,628**	**2,455**	**(173)**
Adults and Resources			
Adult Social Care	42,905	43,324	419
Information Services	3,863	3,839	(24)
Commercial Services	3,798	3,708	(90)
Supporting People	5,913	5,574	(339)
Sub Total	**56,479**	**56,445**	**(34)**
Total - Operational budget	**121,685**	**122,453**	**768**
Unallocated Grants	**2,061**	**0**	**(2,061)**
Uncommitted Budgets – see note *	**0**	**1,293**	**1,293**
Approved Budget	**123,746**	**123,746**	**0**

Note *: The agreed distribution of the uncommitted budgets in the table above at year end was £0.7m to earmarked reserves for an Employment Growth Fund and support for a Community Development Trust of £0.2m and the balance of £0.393m to the general fund balance.

Capital Budget:

The Council in July 2013 received a capital outturn report detailing income and expenditure in year and reasons for any variances, which can be obtained from the Council's website.

Funding

The Council spent £18.5m on capital expenditure in 2012/13 and this funding is shown in the table below.

	Approved Budget £m	Outturn £m	Variation £m
Borrowing – *of which*	5.4	3.6	(1.8)
Supported: (by Government funding)	*0.7*	*0.5*	*(0.2)*
Unsupported: (under Prudential Code)	*4.7*	*3.1*	*(1.6)*
Grants	14.1	12.7	(1.4)
Other Contributions	0.1	0.5	0.4
Revenue & Reserves	0.3	1.0	0.7
Capital Receipts	0.3	0.7	0.4
Total Funding	**20.2**	**18.5**	**(1.7)**

Expenditure

The expenditure in the year of £18.5 million by the four management divisions that the Council reports on for internal reporting are as follows:

	Approved Budget £m	**Outturn £m**	**Spent** %	**Variation £m**
Childrens, Schools & Families	6.5	6.8	105	0.3
Place & Environment	7.2	9.1	126	1.9
Communities & Local Democracy	0.1	0.7	700	0.6
Adults & Operations	2.1	1.9	90	(0.2)
Unallocated	4.3	0	0	(4.3)
TOTALS	**20.2**	**18.5**	**92**	**(1.7)**

Material Assets or Liabilities acquired

Assets:

The Council spent £18.5m on capital assets of which £12.7m was added to the value of the Council's non current assets (before any in year revaluation). The balance of £5.8m was spent on capital expenditure on assets the Council does not recognise as its own, such as Voluntary Aided and Foundation schools and capital grants. A summary of capital expenditure in 2012/13 is shown below:

Scheme	Spend 2012/13 £m
Office Accommodation Project	1.7
Torre Abbey - Phase 2	3.1
Torbay Leisure Centre	0.4
Cross Bay Ferry	0.6
Schools/Education	6.8
Infrastructure	0.3
Transport	2.2
Princess Promenade	1.5
Brixham Regeneration	0.4
Disabled Facility & Renovation Grants	0.5
Other Schemes	1.0
Total	**18.5**

Liabilities

No significant liabilities were acquired by the Council in 2012/13.

Significance of Pension liability

The Council's employees can be members of the Devon County Council Local Government Pension Scheme. As a defined benefit scheme the Council is liable for any surplus or deficit on the fund. The Council's liability is calculated on an annual basis by the fund's actuary. This value estimates the liability of the Council if all liabilities were to be realised at a point in time. In reality the impact on the Council is spread over a long period of time, (over current and future pensioners lives), with the Council reducing the deficit by its employers' contributions to the fund over the long term (over 25 years).

The Council's liability as at 31st March 2013 is assessed at £125 million, a £2 million increase compared to the previous year increase of £47 million.

Explanation of any unusual costs/income

There were a number of unusual costs within the income and expenditure account in 2012/13. These include:

As a result of the budget reductions a total of £1.5m of costs in relation to a reduction of 67 staff were incurred of which £1.1m were paid during 2012/13 and a provision of £0.4m for future costs arising from the budget reductions was made in 2012/13.

In 2012/13, 6 schools converted to Academy status. Five schools were Community schools where the transfer for nil consideration resulted in a loss on disposal on those assets of approx £57 million. The other school was previously a foundation school so there was no impact on the Council's balance sheet. Income and expenditure for these school's from date of transfer no longer forms part of the Council accounts.

Impact of Current Economic Climate

The economic climate continued to have an impact on the Council, however there were no significant changes compared to recent years. Income levels on certain services such as planning and S106 income remained low. Collection rates of both NNDR and Council tax remained at prior year levels although the rate of growth in NNDR income remained very weak. As conditions have remained constant there have been no material changes on the value of the Council's property assets during the year.

Changes in Accounting Policies

There were no significant changes in accounting policies for 2012/13

Planned Future Developments in service delivery

There are a number of changes in service delivery that the Council is planning for. These include:

The Council is part of a Waste Partnership with Plymouth City Council & Devon County Council which was set up formally in 2008 to source a household waste disposal solution for South West Devon. The three Councils jointly signed a 25 year contract for waste disposal with German Company MVV Umwelt in March 2011 following a public procurement exercise. MVV are currently building an energy from waste facility on leased Ministry of Defence land at Camels Head North Yard in Devonport Dockyard, Plymouth. Construction is due to be completed in the Autumn of 2014 when the plant will receive waste from the three authorities in return for contract payments linked to tonnages delivered.

The costs of procurement and initial start-up from 1st April 2007 to 31st March 2013 for the partnership totalled £3.3m and these have been shared equally between the three Councils. The expenditure for 2012/13 was £0.264m. The total estimated cost of the contract to the partnership is £436m, (at February 2010 prices, indexation will apply) over the 25 year period. The estimated first full year cost (using assumed price inflators) is £15.3m, which is estimated to be split between the three authorities as follows Plymouth £7.3m, Devon £5.4m, and Torbay £2.6m, based on tonnes of waste delivered to the plant. There are also annual fixed costs estimated to be £1.8m for rates and land leases etc which will be divided between the authorities in similar proportions.

The exact accounting treatment of the contract payments for waste disposal which will commence autumn 2014 has not been finalised, and finance staff from the three local authorities will be working with external financial advisors to establish the appropriate accounting treatment by April 2014. The final agreed treatment will not impact on the net revenue accounts of each council, and therefore will not affect the council tax requirement.

There is oversight of the contract through the South West Devon Waste Partnership Joint Committee and the three Council's. Plymouth City Council, as host Council, with input from Torbay and Devon County Council will review the appropriate financial reporting for the project costs within each authority. This assessment will be complete by April 2014.

It is anticipated that more schools will opt for Academy status in 2013/14. Three schools have already informed the Council of their decision to transfer in 2013/14. From transfer date the Council's accounts will no longer consolidate any assets/liabilities or income/expenditure incurred by those schools.

The Council has received funding to establish, along with a number of other Councils, a Local Integrated Services Trust (LIST) for the provision of services. This company should be established during 2013/14 and will seek to attract social investment to support certain services, possibly in relation to early intervention in Childrens' services.

The Council has agreed (May 2013) to work with the voluntary sector in Torbay to create a Community Development Trust to support and co ordinate the work of the voluntary sector.

The Council has appointed (June 2013) a permanent (part time) Head of Paid Service – Executive Director Operational and Finance. This will result in changes to the Council's senior management team during 13/14.

The impact of the reductions required under the Coalition Government's four year Comprehensive Spending Review will inevitably impact on the range of services provided and how these services are provided in the future. The Council produces a rolling forward financial plan called The Medium Term Resource Plan which is available on the Council website. Within that document, (last update February 2013), there is a summary of projected revenue income and expenditure for the next three financial years.

	2014/15 £m	2015/16 £m	2016/17 £m
Formula Grant, Council Tax & Collection Fund	120	119	119
Estimated Expenditure	130	135	139
Total Estimated Cumulative Funding Gap	**10**	**16**	**20**
In- year Funding Gap	10	6	4

The Council approved a four year Capital Investment Plan in February 2013 which is available on the Council website. A summary of anticipated capital spend over the next four years, based on funding that had been announced/confirmed by February 2013, is summarised below.

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Total	25	9	9	5

Borrowing & Investments

The Council undertakes borrowing to support its capital expenditure. As at 31st March 2013 the Council had £148 million of borrowing, primarily from the Public Works Loans Board. During 2013/14 the Council reduced its borrowing by £5 million. In addition it had a long term liability of £9m to the PFI contractor for Westlands and Homelands schools. The Council had £82m of cash investments at year end with a net debt position of £75 million. The control over the level of Council borrowing is supported by the Prudential Code where the Council has to set limits in relation to its treasury management including limits for long term borrowing and liabilities to ensure that this is prudent and affordable. One of these indicators is a calculation called the Capital Financing Requirement which shows the Council's underlying need to borrow based on previous decisions on capital expenditure and borrowing offset by any repayment of principal made or other capital funding used. The key figures, in relation to borrowing and capital financing, are as follows:

Balance Sheet Values: (principal)	31/3/12 £m	31/3/13 £m
External Borrowing *	**153**	**148**
Long Term Liabilities	**10**	**9**
External Investments *	**(103)**	**(82)**
Net Debt	**60**	**75**
Treasury Management Limits:		
Capital Financing Requirement	**137**	**136**
Authorised Limit	**228**	**192**
Operational Limit	**201**	**173**
Revenue Income & Expenditure:	**2011/12**	**2012/13**
Interest Receivable *	**(1.7)**	**(1.8)**
Interest Payable *	**6.9**	**6.9**
Costs re long term liabilities	**0.4**	**0.4**
Minimum Revenue Provision (for repayment of principal)	**3.9**	**4.6**

* note: these costs are per Treasury Management outturn report which excludes the accounting adjustments required for statutory accounting such as fair value adjustments.

The level of Council borrowing reflects the Council's capital financing requirement plus the borrowing required by the approved four year Capital Investment Plan. The Council's investments and other cash holdings are sufficient to meet the Councils short and medium term cash requirements for revenue and capital expenditure and any "cash backed" balance sheet items such as reserves and working capital. The cash reduction in year of £21m is a result of a number of factors including changes in the level of Council borrowing, use of reserves to support expenditure and changes in working capital in particular a reduction in creditors.

Significant Provisions or contingencies

The Council has provisions at year end of £1.9 million to meet known liabilities. These are primarily in relation to insurance claims, (submitted to the Council but are currently being investigated), and in relation to costs of restructuring decisions taken in 2012/13 that relate to the 2013/14 budget. The Council has given a number of pension guarantees as Council staff transferred to other bodies such as PLUSS. These are unlikely to result in a cash payment so are treated as a contingent liability. As owner or part owner of several limited companies the council has some exposure to risk but this is limited by share or guarantee.

The Council has provided financial guarantees to other bodies – the significant being a £975,000 bank overdraft and loan guarantee to Torbay Coast and Countryside Trust, which if called would require the Council to pay up to £975,000 for the Trust's debts to the bank.

Material events after reporting date

Three schools are due to convert in 2013/14 to academy status becoming independent of the Council.

From April 2013 the Council is responsible for a 49% share of all NNDR income and costs. This means that 49% of any outstanding revaluations appeals as at 31/3/13 that are approved by the Valuation office irrespective of the period the claim relates to will be a Council liability. It is very hard to estimate the potential liability for the Council here but as at October 2012 over 600 businesses in Torbay had submitted a revaluation request.

Links to Other Financial information

The Statement of Accounts is a key financial document published by the Council. The Council's website contains the Statement of Accounts for previous years and a range of additional financial information such as the Medium Term Resource Plan: Link: http://www.torbay.gov.uk/financialservices.

All financial reports such as monitoring reports and outturn reports are reported on a regular basis to Council Committees. Link: http://www.torbay.gov.uk/index/council/councillorsdecisions/minutesandreports.htm

Glossary

There is a glossary at the back of these documents to help explain the meaning of the some of the local government finance and IFRS accounting terms.

Signed by

Paul Looby BA CPFA

Chief Finance Officer

Torbay Council

28th June 2013

STATEMENT OF ACCOUNTS 2012/13

STATEMENT OF ACCOUNTS 2012/13

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FINANCIAL CERTIFICATES

The Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:-

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Council's Chief Finance Officer
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts

Audit Committee Approval of the Statement of Accounts 2012/13

I confirm that the Council completed its approval process of the Statement of Accounts 2012/2013 on the 25th September 2013 at a meeting of the Council's Audit Committee.

Councillor Alan Tyerman

Chairman of Audit Committee

25th September 2013

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).

In preparing this Statement of Accounts, the Chief Finance Officer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Chief Finance Officer has also:-

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

The Chief Finance Officer's Statement

The Statement of Accounts as required by the Accounts and Audit Regulations (last amended March 2012) is set out on pages 21 to page 136 and has been prepared in accordance with the accounting policies set out on pages 96 to 119. In my opinion it is a true and fair view of the financial position of the Council at 31st March 2013 and its income and expenditure for the year ended 31st March 2013.

The accounts are audited by the Council's External Auditor, Grant Thornton.

The Statement of Accounts 2012/13 were authorised for issue on the 28th June 2013. This is also the date up to which events after the balance sheet date have been considered.

P LOOBY BA CPFA
Chief Finance Officer
28th June 2013

~~The Statement of Accounts 2012/13 were authorised for approval by Members on the 25th September and for publication on the 30th September 2013. This is also the date up to which events after the balance sheet date have been considered.~~

~~P LOOBY BA CPFA~~
~~Chief Finance Officer~~
~~30th September 2013~~

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TORBAY COUNCIL

~~Opinion on the financial statements~~

~~We have audited the financial statements of Torbay Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet and the Authority and Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.~~

~~This report is made solely to the members of Torbay Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.~~

~~Respective responsibilities of the Chief Financial Officer and auditor~~

~~As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.~~

~~Scope of the audit of the financial statements~~

~~An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.~~

~~Opinion on financial statements~~

~~In our opinion the financial statements:~~

- ~~give a true and fair view of the financial position of Torbay Council as at 31 March 2013 and of its expenditure and income for the year then ended;~~
- ~~give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and~~
- ~~have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.~~

~~Opinion on other matters~~

~~In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.~~

~~Matters on which we report by exception. We report to you if:~~

- ~~in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;~~
- ~~we issue a report in the public interest under section 8 of the Audit Commission Act 1998;~~

- ~~we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or~~
- ~~we exercise any other special powers of the auditor under the Audit Commission Act 1998.~~

~~We have nothing to report in these respects.~~

~~Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources~~

~~Respective responsibilities of the Authority and the auditor~~

~~The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.~~

~~We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.~~

~~We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.~~

~~Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources~~

~~We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:~~

- ~~securing financial resilience; and~~
- ~~challenging how it secures economy, efficiency and effectiveness.~~

~~The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.~~

~~We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.~~

~~Conclusion~~

~~On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Torbay Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.~~

~~Certificate~~

~~We certify that we have completed the audit of the financial statements of Torbay Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.~~

~~Alun Williams~~

~~Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor~~

~~Hartwell House ,55-61 Victoria Street, Bristol, BS1 6FT~~

~~25 September 2013~~

Core Financial Statements

Movement in Reserves Statement

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

2011/12

	General Fund Balance £m	Earmarked General Fund Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Council Reserves £m
		Note 8	Note 26	Note 26	Note 26	Note 27	
Balance at 31 March 2011 carried forward	4.0	32.8	0.5	17.0	54.3	133.8	188.1
<u>Movement in Reserves during 2011/12</u>							
Surplus or (deficit) on provision of services	(25.6)	0	0	0	(25.6)	0	(25.6)
Other Comprehensive Expenditure and Income (in I&E Statement)	0	0	0	0	0	(28.5)	(28.5)
Total Comprehensive Expenditure and Income	(25.6)	0	0	0	(25.6)	(28.5)	(54.1)
Adjustments between accounting basis & funding basis under regulations (Note 7)	26.2	0	(0.5)	(3.2)	22.5	(22.5)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	0.6	0	(0.5)	(3.2)	(3.1)	(51.0)	(54.1)
Transfers to/from Earmarked Reserves (Note 8)	(0.6)	0.6	0	0	0	0	0
Increase/(Decrease) in Year	0.0	0.6	(0.5)	(3.2)	(3.1)	(51.0)	(54.1)
Balance at 31 March 2012 carried forward	4.0	33.4	0	13.8	51.2	82.8	134.0

2012/13

	General Fund Balance £m	Earmarked General Fund Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Council Reserves £m
		Note 8	Note 26	Note 26	Note 26	Note 27	
Balance at 31 March 2012 carried forward	**4.0**	**33.4**	**0**	**13.8**	**51.2**	**82.8**	**134.0**
Movement in Reserves during 2012/13							
Surplus or (deficit) on provision of services	**(63.1)**	**0**	**0**	**0**	**(63.1)**	**0**	**(63.1)**
Other Comprehensive Expenditure and Income (in I&E Statement)	**0**	**0**	**0**	**0**	**0**	**0.8**	**0.8**
Total Comprehensive Expenditure and Income	**(63.1)**	**0**	**0**	**0**	**(63.1)**	**0.8**	**(62.3)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	**60.0**	**0**	**0.7**	**(2.1)**	**58.6**	**(58.6)**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**(3.1)**	**0**	**0.7**	**(2.1)**	**(4.5)**	**(57.8)**	**(62.3)**
Transfers to/from Earmarked Reserves (Note 8)	**3.5**	**(3.5)**	**0**	**0**	**0**	**0**	**0**
Increase/(Decrease) in Year	**0.4**	**(3.5)**	**0.7**	**(2.1)**	**(4.5)**	**(57.8)**	**(62.3)**
Balance at 31 March 2013 carried forward	**4.4**	**29.9**	**0.7**	**11.7**	**46.7**	**25.0**	**71.7**

Comprehensive Income and Expenditure Statement

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

2011/12 Gross Exp £m	2011/12 Gross Income £m	2011/12 Net Exp £m	Services:	**2012/13 Gross Exp £m**	**2012/13 Gross Income £m**	**2012/13 Net Exp £m**
19.6	(17.1)	2.5	Central Services to the public	18.9	(17.0)	**1.9**
12.4	(1.8)	10.6	Cultural Services	11.0	(1.6)	**9.4**
18.5	(4.3)	14.2	Environmental and Regulatory	19.5	(4.1)	**15.4**
9.6	(1.7)	7.9	Planning and Regeneration	6.3	(1.7)	**4.6**
132.5	(93.0)	39.5	Education and Childrens	110.2	(77.8)	**32.4**
19.3	(8.2)	11.1	Highways and Transport	19.3	(7.7)	**11.6**
76.0	(68.6)	7.4	Housing	78.8	(72.8)	**6.0**
47.5	(4.0)	43.5	Adult Social Care	46.1	(3.5)	**42.6**
0	0	0	Public Health	0.1	(0.1)	**0**
3.1	0	3.1	Corporate and Democratic Core	4.2	(0.1)	**4.1**
1.2	(1.1)	0.1	Non distributed costs	2.8	(3.2)	**(0.4)**
339.7	(199.8)	139.9	**Cost Of Services**	**317.2**	**(189.6)**	**127.6**
5.1	(1.0)	4.1	Other Operating Expenditure (Note 9)	4.1	(1.6)	**2.5**
16.9	0	16.9	Exceptional Item – Transfer of schools to academies (note 9)	56.6	0	**56.6**
22.2	(14.6)	7.6	Financing and Investment Income and Expenditure (Note 10)	21.8	(13.1)	**8.7**
0	(142.9)	(142.9)	Taxation and Non-Specific Grant Income (Note 11)	0	(132.3)	**(132.3)**
		25.6	**(Surplus)/Deficit on Provision of Services**			**63.1**
		(14.7)	(Surplus)/Deficit on revaluation on Non Current Assets (note 27.1)			**(1.3)**
		(2.8)	(Surplus)/Deficit on revaluation of available for sale financial assets (note 27.4)			**(0.3)**
		46.0	Actuarial (gains) / losses on pension assets / liabilities (note 49)			**0.8**
		28.5	**Other Comprehensive Income and Expenditure**			**(0.8)**
		54.1	**Total (Surplus)/Deficit in Comprehensive Income and Expenditure**			**62.3**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The Net Assets of the Council, (assets less liabilities), are matched by the reserves held by the Council.

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

31st March 2012			**31st March 2013**
£m		Note	**£m**
312.3	Property, Plant & Equipment	12	**252.0**
22.2	Heritage Assets	15	**25.4**
4.1	Investment Property	13	**3.9**
0.5	Intangible Assets	14	**0.4**
2.8	Long Term Investments	18	**8.1**
2.9	Long Term Debtors	20	**3.0**
344.8	**Non Current (Long Term) Assets**		**292.8**
94.4	Short Term Investments	18	**77.5**
0.7	Assets Held for Sale	19	**2.0**
0.1	Inventories		**0.1**
13.7	Current Debtors	20	**17.0**
0	Other Current Assets		**0.1**
11.8	Cash and Cash Equivalents	21	**2.1**
120.7	**Current Assets**		**98.8**
(2.0)	Short Term Borrowing	24	**(1.9)**
(0.4)	Other Current Term Liabilities	25	**(0.4)**
(37.4)	Current Creditors (inc Receipts in Advance)	22	**(22.9)**
(1.4)	Provisions	23	**(1.7)**
(0.9)	Capital Grants/Contributions: Receipts in Advance	22	**(3.6)**
0	Cash and Cash Equivalents	21	**(4.3)**
(42.1)	**Current Liabilities**		**(34.8)**

31st March 2012		Notes	31st March 2013
£m			£m
(1.2)	Long Term Creditors	22	**(1.5)**
(0.2)	Provisions	23	**(0.2)**
(153.7)	Long Term Borrowing	16	**(148.3)**
(10.3)	Other Long Term Liabilities	25	**(9.8)**
(123.5)	Pension Liability	49	**(125.3)**
(0.5)	Capital Grants/Contributions: Receipts in Advance	22	**0**
(289.4)	**Long Term Liabilities**		**(285.1)**
134.0	**Net Assets**		**71.7**
51.2	Usable reserves	26	**46.7**
82.8	Unusable Reserves	27	**25.0**
134.0	**Total Reserves**		**71.7**

The unaudited accounts were issued on 28th June 2013 ~~*and the audited accounts are authorised for issue on 26th September 2013.*~~

~~*P LOOBY BA CPFA*~~
~~*Chief Finance Officer*~~
~~*26th September 2013*~~

Cash Flow Statement

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

2011/12		2012/13
£m		£m
(25.6)	Net surplus or (deficit) on the provision of services	(63.1)
41.8	Adjustments to net surplus or deficit on the provision of services for non cash movements (note 28)	57.8
(1.2)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 29)	(1.8)
15.0	**Net cash flows from Operating Activities**	**(7.1)**
3.5	Investing Activities (Note 31)	(0.5)
(9.4)	Financing Activities (Note 32)	(6.4)
9.1	**Net increase or (decrease) in cash and cash equivalents**	**(14.0)**
2.7	Cash and cash equivalents at the beginning of the reporting period (Note 21)	11.8
11.8	**Cash and cash equivalents at the end of the reporting period** (Note 21)	**(2.2)**
9.1	Net increase or (decrease) in cash and cash equivalents	**(14.0)**

Notes to the Accounts

1. Changes in Accounting Policy

For 2012/13 there are no changes in accounting policy that impact on these accounts.

2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

IAS 19 for Employee Benefits was amended in June 2011 and this will impact on the 2013/14 accounts. The changes include:

The "finance cost" being replaced by a "net interest cost"

Deferral of actuarial gains and losses will no longer be permitted.

A number of elements of IAS19 will be "relabelled"

Curtailments will be recognised as a past service cost.

The main impact is on the calculation of the net interest cost which will be based on returns available on AA-rated corporate bonds. The aim is that this will enable greater consistency between IAS 19 disclosures as the previous calculation of finance cost was based more on estimates of expected returns. The pension fund actuary has provided an estimate of the impact of the standard if it had applied to the 2012/13 financial year.

Amounts recognised in the comprehensive income and expenditure statement	IAS19 Year to 31/3/13 £000's	Revised IAS19 Year to 31/3/13 £000's	Difference £000's
Current Service Cost	8,020	5,187	(2,833)
Settlements	(2,833)	-	2,833
Interest on Liability	14,244	-	(14,244)
Return on Assets	(10,451)	-	10,451
Net Interest on Liability	-	5,407	5,407
Administration expenses	-	96	96
Total	**8,980**	**10,690**	**1,710**
Actual Return on Assets	24,237	24,333	96

Although these may change the entries in the Council's accounts for pension movements, due to the statutory overrides for IAS19 entries there is no impact on Council taxpayers.

There are changes to the following standards that could apply to the 2013/14 accounts, however none are likely to impact on the Council.

IAS 1 *Presentation of Financial Statements*
IFRS 7 *Financial Instruments Disclosures*
IAS *12 Income Taxes*

3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 50, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements, where others may have made a different judgement, made in the statement of accounts are:

- The assets (vehicle & plant) that are leased to TOR2 as part of the contract have been treated as Council assets, while any assets purchased by TOR2 are not recognised as Council assets as these are not classified as infrastructure assets or specified in the contract and are not for the exclusive use of the Council. The Council has considered that there are not any embedded leases within the contract.
- In assessing its existing leases under IFRS guidance the Council has only considered leases where either the value of rent or the value of the asset was material. In addition a ratio of 75% of lease term to asset life has been used as a guide to recognising leases as finance leases.
- In assessing the recognition of grants the Council has determined that if grant conditions have not been met then the grant is not recognised as income but held as a receipt in advance. If a grant could be used to support capital or revenue spend it has been treated as revenue. This would only have an impact between the totals of non specific grant income and gross service income in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement
- The recognition of the Council's investment in its subsidiaries is fair value. In particular the fair value of the Council's investment in the Torbay Economic Development Company Limited was taken to be the net equity of the company. As at 31st March each year the investment value is adjusted to reflect the movement in the net equity of the company as a revaluation gain or loss, unless the loss falls below the nominal value of the shares when impairment will be recognised.
- In assessing the fair value of its Heritage Assets the Council has used insurance valuations where available or historic cost. The asset lives of heritage assets, by their nature, have been deemed to be infinite.
- The accounting for the recognition of school assets based on the Council’s assessment of its control including its residual interest in asset and its control over school admissions and staff employment over these assets is as follows:

  Community Schools – assets recognised on balance sheet

  Voluntary Controlled schools – assets recognised on balance sheet

  Voluntary Aided Schools – assets not recognised on balance sheet

  Foundation Schools - assets not recognised on balance sheet

Academy Schools - assets not recognised on balance sheet

Schools converting to Academy status are written out from the Council's balance sheet in year of transfer.

The Comprehensive Income and Expenditure statement does not include any Dedicated Schools Grant recouped or for expenditure associated with Academy schools.

- All changes in the recognition of assets and liabilities of NNDR arising from the NNDR retention scheme introduced by central government from April 2013 will be reflected in 2013/14 with no impact on balances as at 31st March 2013, as there is no "past event" relating to 2012/13.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances can't be determined with certainty, actual results could be materially different from the assumptions and estimates. There were no changes in accounting estimates in 2012/13 or expected in future years.

The item in the Council's balance sheet at 31st March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pension Liability Value 31/3/13 £125.3 million	The Council's liability as at 31st March is based on a number of complex judgements relating to the discount rate used, the rate at which salaries may change, changes in retirement dates, mortality rates and expected return on pension fund assets A firm of pension actuaries are used to provide this information and every three years there is a detailed actuarial review of the fund. The value of pension assets is estimated (by the actuary) based upon information available at the Balance Sheet date, but these valuations may be earlier	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a change in the (gross) pension liability of £7.2 million. Similarly a change in the mortality assumption of 1 year would result in a change of £12.5 million. However, the assumptions interact in complex ways. During 2012/13, the Council's actuaries advised that the net pensions liability had increased by £0.8 million as a result of estimates being corrected as a result of experience updating of actuarial assumptions.

	than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets, but this difference is not considered to be material.

5. Material Items of Income and Expense

As described in the Operating Review there were a number of unusual costs within the income and expenditure account in 2012/13. These include:

As a result of the 2012/13 and 2013/14 budget process and further restructuring of the Council's senior management actual costs a provision for future costs arising from the reductions was incurred in 2012/13. These totalled £1.5 million and were funded from the Comprehensive Spending Review Reserve.

In 2012/13 six schools converted to Academy status. Five of these schools were previously recognised on the Council's balance sheet which resulted in a loss on disposal of £57m.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 29th June 2013 ~~and subsequently authorised for publication on 26th September 2013.~~ Events taking place after this date are not reflected in the financial statements or notes.

Since 31st March 2013 to the date the Chief Finance officer authorised the accounts for issue (29th June 2013) there are a few significant events to note:

Three schools are due to convert to academy status in 13/14 becoming independent of the Council.

The majority of the public health function previously undertaken by the NHS transferred to the Council from April 2013, with a £7m ring fenced grant coming to the Council. In addition the Social Fund function also transferred from Department of Work and Pensions to the Council from April 2013 with a £0.7m grant.

From April the new NNDR retention scheme was introduced with Councils now responsible for a percentage share of all transactions in relation to NNDR income in their area. This to include movement up and down in NNDR income (up to a safety net) which includes the payment of any outstanding NNDR appeals as at 31st March 2013 that have not yet been determined by the valuation office. Torbay Council as a unitary authority will be responsible for 49% of the NNDR income, Devon and Somerset Fire authority 1% and the Department of Communities and Local Government 50%. The Council's 2012/13 accounts assume that changes in the recognition of assets and liabilities of NNDR arising from the NNDR retention scheme introduced by central government from April 2013 will apply in 2013/14 with no impact on balances as at 31st March 2013, as there is no "past event" relating to 2012/13.

The Valuation Office has supplied a list of all outstanding appeals as at 31st March 2013 with the category of claim, a total of 606 claims. It is hard to estimate the level of the Council's potential liability from these appeals based on this limited information. It is unknown whether the appeals will succeed or if successful the value of any potential reduction in rateable value. The maximum repayment if, in the very unlikely event, every claim succeeded to the maximum rateable value is a cost of £69 million, of which the Council would be liable for a 49% share of £34 million.

However in recent years the level for repayments each year is around £2m (Council share £1m) so the liability transferring to the Council could be, assuming three years to clear outstanding appeals, is approximately £3 million.

The table below summarises the information provide by the Valuation Office as at 31st March 2013 extrapolated to reflect the maximum potential cost.

Reason for Appeal	Maximum Claim Value	Torbay 49% Share
01: IPP disputes accuracy of RV in the Rating List	£23m	£11m
02: Disputes the RV changed in the Rating List (Valuation Officer Notices)	£14m	£7m
04: Disputes RV because of a Material Change of Circumstances	£26m	£13m
11: The entry is disputed due to a Valuation Tribunal, Upper Tribunal (Lands Chamber) or High Court	£4m	£2m
Other Reason	£2m	£1m
Total	**£69m**	**£34m**

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2012/13

2012/13	Usable Reserves			Movement in Unusable Reserves £m
	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(9.5)	0	0	9.5
Movement in the fair value of Investment Properties	0.1	0	0	(0.1)
Movement in the market value of Assets Held for Sale	(0.1)	0	0	0.1
Amortisation of intangible assets	(0.2)	0	0	0.2
Capital Grants and Contributions Applied	4.0	0	0	(4.0)

2012/13	Usable Reserves			Movement in Unusable Reserves £m
	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	
Revenue expenditure funded from capital under statute	(2.0)	0	(2.9)	4.9
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(60.2)	0	0	60.2
Notional Rent Credit	0.1	0	0	(0.1)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	5.0	0	0	(5.0)
Capital expenditure charged against the General Fund	0.8	0	0	(0.8)
Adjustments involving Capital Grant Unapplied Account				
Capital Grants & Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1.9	0	(1.9)	0
Application of (prior year) Grants to capital financing transferred to the Capital Adjustment Account	0	0	6.9	(6.9)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1.4	(1.4)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0.7	0	(0.7)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 49)	(9.0)	0	0	9.0
Employer's pensions contributions and direct payments to pensioners payable in the year	8.0	0	0	(8.0)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.8)	0	0	0.8
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.5	0	0	(0.5)
Total Adjustments	**(60.0)**	**(0.7)**	**2.1**	**(58.6)**

2011/12

2011/12 Comparative Figures	Usable Reserves			Movement in Unusable Reserves £m
	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(23.4)	0	0	23.4
Movement in the fair value of Investment Properties	(0.1)	0	0	0.1
Movement in the market value of Assets Held for Sale	(0.1)	0	0	0.1
Amortisation of intangible assets	(0.3)	0	0	0.3
Capital Grants and Contributions Applied	12.4	0	0	(12.4)
Revenue expenditure funded from capital under statute	0.1	0	(3.0)	2.9
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(21.5)	0	0	21.5
Notional Rent Credit	0.1	0	0	(0.1)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	3.9	0	0	(3.9)
Capital expenditure charged against the General Fund	0.9	0	0	(0.9)
Adjustments involving Capital Grant Unapplied Account				
Capital Grants & Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1.5	0	(1.5)	0
Application of (prior year) Grants to capital financing transferred to the Capital Adjustment Account	0	0	7.7	(7.7)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0.8	(0.8)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	1.3	0	(1.3)
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(0.8)	0	0	0.8
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 49)	(8.4)	0	0	8.4
Employer's pensions contributions and direct payments to pensioners payable in the year	7.5	0	0	(7.5)

2011/12 Comparative Figures	Usable Reserves			Movement in Unusable Reserves £m
	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	
Adjustments involving the Collection Fund Adjustment Account: Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	0.8	0	0	(0.8)
Adjustment involving the Accumulated Absences Account Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.4	0	0	(0.4)
Total Adjustments	**(26.2)**	**0.5**	**3.2**	**(22.5)**

8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13.

	Balance at1 April 2011 £m	Transfer Out 2011/12 £m	Transfer In 2011/12 £m	**Balance at 31 March 2012 £m**	**Transfer Out 2012/13 £m**	**Transfer In 2012/13 £m**	**Balance at 31 March 2013 £m**
Reserves earmarked for General Expenditure							
Budget Issue Reserves	0.9	(0.6)	0.1	**0.4**	(0.4)	0.3	**0.3**
Change Management & Financial Strategy	0.9	(0.9)	0.2	**0.2**	(0.2)	0	**0**
Comprehensive Spending Review Reserve	3.5	(0.6)	0.1	**3.0**	(2.9)	3.0	**3.1**
Sub Total	5.3	(2.1)	0.4	**3.6**	(3.5)	3.3	**3.4**
Reserves earmarked for specific issues							
Community Development Trust	0	0	0	**0**	0	0.3	**0.3**
Contingent Liability & Dilapidation Reserve	0	0	0.2	**0.2**	0	0	**0.2**
Disposal and Property	0.2	0	0	**0.2**	0	0	**0.2**

	Balance at1 April 2011 £m	Transfer Out 2011/12 £m	Transfer In 2011/12 £m	**Balance at 31 March 2012 £m**	**Transfer Out 2012/13 £m**	**Transfer In 2012/13 £m**	**Balance at 31 March 2013 £m**
Costs Reserve							
Employment Issues	0.3	(0.1)	0	**0.2**	0	0	**0.2**
Equipment Reserves	0.4	(0.1)	0	**0.3**	(0.1)	0	**0.2**
Growth Fund	0	0	0.3	**0.3**	0	0.7	**1.0**
Housing – Telecare	0.2	(0.2)	0	**0**	0	0	**0**
Insurance Reserves	3.5	0	0.4	**3.9**	(0.6)	0.4	**3.7**
IT Equipment Reserve	1.0	(0.2)	0	**0.8**	(0.4)	0	**0.4**
LA Business Growth Incentive	0.1	(0.1)	0	**0**	0	0	**0**
Misc. Specific Reserves	0.5	(0.1)	0	**0.4**	0	0	**0.4**
Office Accommodation	0.3	0	0	**0.3**	0	0	**0.3**
Pension Reserve	0.5	0	0.5	**1.0**	(0.6)	0	**0.4**
Regeneration Reserve	0	0	0.3	**0.3**	0	0	**0.3**
Riviera Centre	0.4	(0.2)	0	**0.2**	(0.1)	0	**0.1**
Seaside Towns	0.2	(0.1)	0	**0.1**	(0.1)	0	**0**
Supporting People Reserve	0.8	(0.2)	0.1	**0.7**	0	0	**0.7**
Tourism Reserve	0	(0.1)	0.3	**0.2**	(0.1)	0	**0.1**
Waste Strategy Reserve	0.4	(0.3)	0.2	**0.3**	(0.3)	0.2	**0.2**
Sub Total	8.8	(1.7)	2.3	**9.4**	(2.3)	1.6	**8.7**
Reserves to reflect timing of expenditure							
Unsupported Borrowing	1.4	0	0.9	**2.3**	(0.5)	0	**1.8**
PFI Sinking Fund	3.3	(0.5)	0.5	**3.3**	(0.6)	0.6	**3.3**
Carry Forwards (Service)	8.3	(5.9)	2.9	**5.3**	(4.4)	0.6	**1.5**
Grants recognised but not used	0	0	0	**0**	0	2.0	**2.0**
Planning Reserve	0.4	0	0	**0.4**	(0.1)	0.1	**0.4**
Sub Total	13.4	(6.4)	4.3	**11.3**	(5.6)	3.3	**9.0**
Reserves to support Capital expenditure							
Capital Funding Reserve	1.1	(0.3)	0.3	**1.1**	(0.1)	0.3	**1.3**
South Devon Link Road	0.1	0	0.4	**0.5**	0	0.4	**0.9**
TDA Capital Schemes	0.1	0	0.3	**0.4**	(0.4)	0	**0**
Sub Total	1.3	(0.3)	1.0	**2.0**	(0.5)	0.7	**2.2**

	Balance at1 April 2011 £m	Transfer Out 2011/12 £m	Transfer In 2011/12 £m	**Balance at 31 March 2012 £m**	**Transfer Out 2012/13 £m**	**Transfer In 2012/13 £m**	**Balance at 31 March 2013 £m**
School Related Reserves							
Schools Redundancy	0.1	(0.1)	0.3	**0.3**	0	0	**0.3**
Early Retirement Reserve	0.1	(0.1)	0.1	**0.1**	0	0.1	**0.2**
Schools' Balances (held under a delegation scheme)	2.5	(2.5)	3.5	**3.5**	(3.5)	3.2	**3.2**
Sub Total	2.7	(2.7)	3.9	**3.9**	(3.5)	3.3	**3.7**
Ring Fenced Reserves							
EDC Reserve	0	0	1.6	**1.6**	(0.4)	0	**1.2**
Public Health	0.1	(0.1)	0.4	**0.4**	0	0.1	**0.5**
Harbour's Reserve	1.2	0	0	**1.2**	(0.2)	0.2	**1.2**
Sub Total	1.3	(0.1)	2.0	**3.2**	(0.6)	0.3	**2.9**
Total	**32.8**	**(13.3)**	**13.9**	**33.4**	(16.0)	12.5	**29.9**

The purpose for the reserves (listed in alphabetical order) held by the Council are:-

Name of Reserve	**Description of Reserve**
Budget Issues Reserve	To support future budgetary pressures facing the Council in the medium term.
Capital Funding	To reserve funding for items in the approved Capital Plan Budget.
Carry Forwards	Service Carry Forwards
Change Management and Financial Strategy	To fund the implementation of high level reviews and other corporate initiatives – now not used
Comprehensive Spending Review Reserve	To fund costs associated with meeting budget reductions as a result of the Government's comprehensive spending review.
Contingent Liabilities and Dilapidations Reserve	To support the funding implications of any Council liabilities that may arise in the future, such as a dilapidation issue.
Community Development Trust Reserve	Reserve established by support the creation and three year support for a Community Development Trust.
Disposal Costs and Property Issues Reserve	To support the revenue costs associated with the rationalisation of the Council's assets
Early Retirement Reserve	To enable the Council to meet childrens' redundancy-related liabilities as they fall due. Built up from annual budgets for new redundancies.
EDC Reserve	Reflects the value of funds awarded to the Torbay Economic Development Company where the work has yet to be completed.

Employment Issues Reserve	To support employment related issues, such as implication of pay modernisation, equal pay and payroll related issues.
Equipment Fund	To facilitate renewal of equipment within services where the replacement is at irregular periods.
Grants recognised but not used	Reflects the value of revenue grants (without conditions) received by 31st March but not yet used to support expenditure
Growth Fund Reserve	Reserve established from the New Homes Bonus grant to create an Growth Fund to support employment opportunities.
Harbours	Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users.
Housing Telecare	Reserve to support supporting people via the use of telecare with Torbay Care Trust. Reserve now not in use.
Insurance Reserve	To set aside amounts to cover the future cost of past uninsured events which result in a loss to the Council. This reserve comprises estimates of potential liabilities arising from the Council's previous insurers Municipal Mutual Insurance Ltd not having sufficient solvency, to meet pre 1998 claims from Devon County Council, amounts for specific uninsured risks and a general reserve to meet as yet unknown insurance claims
IT Equipment	To provide funds for priority driven replacements of IT equipment.
Office Accommodation Reserve	Reserve to help meet the short term revenue costs of the implementation of this major project.
Other Specific Reserves	Includes: Land Charges, Council Elections, Taxi Survey, Devon Audit Partnership and Cemeteries.
Pension Reserve	To set aside monies for any potential liability for the pension costs and any Council pension funding issues
PFI Sinking Fund	To provide funds to meet the liabilities under the PFI agreement over 25 years (Westlands and Homelands Schools) and to provide funding towards Paignton Community College expansion project.
Planning Reserve	To provide for costs of Local Plan Inquiry held every 4/5 years.
Public Health	Reflects carry forward of funds for Public Health
Regeneration Reserve	A reserve to support economic regeneration and employment initiatives
Riviera Centre	Reserve to help support the Riviera Centre and any alternative use of the site
School Balances	Reflects the carry forward by schools of their delegated school budget share.
School Redundancy Reserve	Reserve to support the costs of redundancies for schools based staff
South Devon Link Road	To support the development of the South Devon Link Road
Supporting People Reprovision Reserve	To set aside monies to help in the commissioning of services for the re provision of the supporting people function
TDA Capital Reserve	To support funding of TDA Capital projects such as Brixham Regeneration
Tourism Reserve	Reserve established in 2012/13 to support tourism and events.
Unsupported Borrowing	Reflects the temporary surplus/deficit arising from the charges to

Equalisation Reserve	services for the repayment of expenditure under Prudential Borrowing compared to actual interest and Revenue Provision.
Waste Disposal Strategy Reserve	Reflects the reclassification of part of the equipment fund as a specific reserve for Waste Disposal Initiatives.

9. Other Operating Expenditure

2011/12 £m		**2012/13 £m**
0.2	Parish council precepts	**0.2**
0.1	Downward Revaluation on Assets held for Sale	**0.1**
3.8	(Gain)/loss on the disposal of non current assets	**2.2**
16.9	Exceptional (Gain)/loss on the transfer of Schools to Academy status	**56.6**
21.0	**Total**	**59.1**

10. Financing and Investment Income and Expenditure

2011/12 £m		**2012/13 £m**
7.4	Interest payable and similar charges	**7.5**
2.3	Pensions interest cost and expected return on pensions assets	**3.8**
(1.9)	Interest receivable and similar income	**(2.1)**
(0.2)	Income and expenditure in relation to investment properties and changes in their fair value	**(0.5)**
7.6	**Total**	**8.7**

11. Taxation and Non Specific Grant Income

2011/12 £m		**2012/13 £m**
(63.7)	Council tax income	**(63.1)**
(47.7)	Non domestic rates	**(58.4)**
(17.7)	Non-ringfenced government grants	**(4.9)**
(13.8)	Capital grants and contributions	**(5.9)**
(142.9)	**Total**	**(132.3)**

12. Property, Plant and Equipment (P,P&E)

Measurement Basis

Non Current assets are valued at fair value for their particular asset type (category). Fair Value will therefore reflect:

Existing Use Value for most categories of Property Plant and Equipment

Depreciated Replacement Cost for assets of a specialised nature with no readily identifiable market

Depreciated Historical Cost for Community, Infrastructure and Vehicles, Plant and Equipment

Historical Cost for Assets under Construction

Depreciation method

Assets are depreciated on a straight line basis over the useful life of each asset to reflect the pattern in which the asset's service potential is expected to be used.

Depreciation is applied to all asset types with the exception of land which is not depreciated due to its nature.

Useful lives used

The useful life of an asset represents the period over which an asset is expected to be of use in providing services for the Council.

Further detail on the Council's accounting polices, including valuation basis and asset lives used, is disclosed in the Council's Accounting Policies for Property, Plant & Equipment

Movements on Balances

Reconciliation of movements in 2012/13 and the prior year 2011/12 in Property, Plant and Equipment by category of assets is shown in the tables below.

2012/13	Other Land & Buildings	Vehicles, Plant & Equipm't	Infra - structure Assets	Community Assets	Surplus Assets	Assets Under Const-ruction	Total Property, Plant & Equipm't	PFI Assets in P, P & E
	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation								
At 1 April 2012	**232.9**	**16.9**	**91.9**	**5.5**	**0.8**	**0.7**	**348.7**	**3.7**
Additions	4.3	0.4	2.7	1.5	0	0.7	**9.6**	0
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(1.1)	0	0	0	0	0	**(1.1)**	(0.3)

Revaluation Increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2.1)	0	0	0	0	0	**(2.1)**	0
Derecognition - Disposals	(61.5)	(0.5)	0	0	0	(0.6)	**(62.6)**	0
Assets reclassified (to)/from Held for Sale	(1.5)	0	0	0	(0.7)	0	**(2.2)**	0
Other movements in Cost or Valuation	0.1	0	0	0	0	0	**0.1**	0
At 31 March 2013	**171.1**	**16.8**	**94.6**	**7.0**	**0.1**	**0.8**	**290.4**	**3.4**
Accumulated Depreciation and Impairment								
At 1 April 2012	**(11.0)**	**(10.2)**	**(15.2)**	**0**	**0**	**0**	**(36.4)**	**(0.3)**
Depreciation charge	(2.6)	(1.3)	(3.4)	(0.1)	0	0	**(7.4)**	0
Depreciation written out to the Revaluation Reserve	2.0	0	0	0	0	0	**2.0**	0.3
Impairment losses/(reversals) recognised in the Revaluation Reserve	0.1	0	0	0	0	0	**0.1**	0
Derecognition - Disposals	3.0	0.3	0	0	0	0	**3.3**	0
Other movements in Depreciation and Impairment	0.1	(0.1)	0	0	0	0	**0**	0
At 31 March 2013	**(8.4)**	**(11.3)**	**(18.6)**	**(0.1)**	**0**	**0**	**(38.4)**	**0**
Net Book Value								
At 31 March 2013	**162.7**	**5.5**	**76.0**	**6.9**	**0.1**	**0.8**	**252.0**	**3.4**
At 31 March 2012	221.9	6.7	76.7	5.5	0.8	0.7	312.3	3.4

2011/12	Other Land and Buildings	Vehicles, Plant & Equipm't	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Const-ruction	**Total Property, Plant & Equipm't**	**PFI Assets in P,P & E**
	£m	£m	£m	£m	£m	£m	**£m**	**£m**
Cost or Valuation								
At 1 April 2011	**246.6**	**16.6**	**86.7**	**5.0**	**0**	**2.6**	**357.5**	**3.7**

Additions	9.7	0.9	5.2	0.6	0	0.6	**17.0**	0
Donations	0	0	0	0	0	0	**0**	0
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	13.2	0	0	0	(0.1)	0	**13.1**	0
Revaluation Increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(14.1)	0	0	0	(0.1)	(2.3)	**(16.5)**	0
Derecognition - Disposals	(21.8)	(0.6)	0	0	0	0	**(22.4)**	0
Derecognition - Other	(0.1)	0	0	0	0	0	**(0.1)**	0
Assets reclassified (to)/from Held for Sale	(0.6)	0	0	0	0.8	0	**0.2**	0
Other movements in Cost or Valuation	0	0	0	(0.1)	0.2	(0.2)	**(0.1)**	0
At 31st March 2012	**232.9**	**16.9**	**91.9**	**5.5**	**0.8**	**0.7**	**348.7**	**3.7**
Accumulated Depreciation and Impairment								
At 1 April 2011	(9.6)	(9.3)	(11.9)	0	0	0	**(30.8)**	**(0.2)**
Depreciation charge	(3.2)	(1.5)	(3.3)	0	0	0	**(8.0)**	(0.1)
Depreciation written out to the Revaluation Reserve	0.3	0	0	0	0	0	**0.3**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	1.0	0	0	0	0	0	**1.0**	0
Derecognition - Disposals	(0.2)	0	0	0	0	0	**(0.2)**	0
Derecognition - Other	0.6	0.6	0	0	0	0	**1.2**	0
Other movements in Depreciation and Impairment	0.1	0	0	0	0	0	**0.1**	0
At 31 March 2012	**(11.0)**	**(10.2)**	**(15.2)**	**0**	**0**	**0**	**(36.4)**	**(0.3)**
Net Book Value:-								
At 31 March 2012	**221.9**	**6.7**	**76.7**	**5.5**	**0.8**	**0.7**	**312.3**	**3.4**
At 31 March 2011	237.0	7.3	74.8	5.0	0	2.6	326.7	3.5

Contractual Commitments for the acquisition of Property, Plant and Equipment as at 31 March 2013

The significant commitments on capital schemes with a value greater than £0.5 million together with the likely year of spend are shown in the table below:

Contract	Purpose	Total Commitments	2013/14	2014/15
Schools		£m	£m	£m
Barton Primary School	Improve pupil accommodation and facilities	2.1	2.1	0
Warberry Primary expansion	Primary review project to provide additional pupil places	0.7	0.7	0
Housing				
New Growth Points – Land Acquisition	Acquisition of land to facilitate future Affordable Housing developments	0.6	0.6	0
Empty Homes Scheme	Project to bring empty accommodation back into use to provide affordable homes	0.5	0.1	0.2
Former B&Q site, Torre	Residential or 'mixed development' scheme to include affordable housing	0.9	0.9	0
Transport				
South Devon Link Road	Major investment to provide new road to alleviate congestion and ease traffic flow to and from Torbay.	18.9	4.8	2.1
Culture				
Torre Abbey Phase 2	Major restoration of important Heritage asset	1.0	1.0	0
Total Significant Commitments		**24.7**	**10.2**	**2.3**

Revaluations

The Council's assets are regularly revalued, (at least once during a five year period), by the Council's appointed external qualified valuer - see accounting policies. The effective date of revaluation is usually the 1st April of the year on the revaluation.

	Other Land and Buildings £m	Vehicles, Plant, Furniture and Equipment £m	Surplus Assets £m	Total £m
Carried at historical cost	0	16.8	0	16.8
Valued at fair value as at:				
31 March 2013	42.5	0	0	42.5
31 March 2012	29.5	0	0.1	29.6
31 March 2011	18.6	0	0	18.6
31 March 2010	21.0	0	0	21.0
31 March 2009	59.5	0	0	59.5
Total Cost or Valuation	**171.1**	**16.8**	**0.1**	**188.0**

13. Investment Properties

Investment Properties are properties that the Council holds for purely a rental stream or for capital appreciation. These assets have no operational purpose for the Council.

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2011/12 £m		**2012/13 £m**
(0.4)	Rental income from investment property	**(0.5)**
0.1	Net (gain)/loss from fair value adjustments	**(0.1)**
0.1	Direct operating expenses arising from investment property	**0.1**
(0.2)	**Net (surplus)/deficit**	**(0.5)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year:

2011/12 £m		**2012/13 £m**
4.1	Balance at start of the year	**4.1**
0	Disposals in Year	**(0.3)**
0	Net gains/(losses) from fair value adjustments	**0.1**
4.1	Balance at end of the year	**3.9**

14. Intangible Assets

The Council accounts for it's software as intangible assets if material. These are purchased licenses. There are no material internally written software assets included.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

Useful life	Intangible Assets (purchased)
3 years	TRIPS (National database containing travel information),
5 years	Electronic Document Management
10 years	FIMS (Financial Information Management System), Decriminalised Parking

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.2 million charged to revenue in 2012/13 was charged to the relevant services within the comprehensive Income and Expenditure Statement or initially to a support service which is then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

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

2011/12 Intangible assets (purchased software) £m		2012/13 Intangible assets (purchased software) £m
	Balance at start of year:	
3.5	• Gross carrying amounts	**3.6**
(2.8)	• Accumulated amortisation	**(3.1)**
0.7	Net carrying amount at start of year	**0.5**
	Additions:	
0.1	• Purchases	**0.1**
(0.3)	Amortisation for the period	**(0.2)**
0.5	Net carrying amount at end of year	**0.4**
	Comprising:	
3.6	• Gross carrying amounts	**3.7**
(3.1)	• Accumulated amortisation	**(3.3)**
0.5		**0.4**

15. Heritage Assets

The value of the Council's heritage assets are reported in the balance sheet at an insurance valuation. Where it is not practical to obtain an insurance valuation the asset is measured at historical cost (usually nil). Heritage Assets, by their nature have a long life, so have not been depreciated. In 2012/13 there has been a small value of disposal of fine art and major ongoing enhancement work to Torre Abbey.

The insurance valuations for heritage assets classified as property are updated every year by an inflationary factor as recommended by the Council's insurers, then revalued every 5 years as part of a rolling programme by an external valuer. The Fine Art Collection and Mayoral Regalia are revalued periodically by external valuers to ensure the adequacy of the valuation. The value of these assets are held on the Council's Asset Register.

The following table shows the reconciliation of the carrying value of Heritage Assets held by the Council where the assets are held at valuation. Assets are also held at historic cost. For 2012/13 the historic cost (carrying value) of these assets was nil.

	Fine Art Collection	**Mayoral Regalia**	**Heritage Property**	**Assets Under Construction**	**Total Assets**
Valuation	**£m**	**£m**	**£m**	**£m**	**£m**
31st March 2011	**5.9**	**0.2**	**13.7**	**0.3**	**20.1**
Additions	0	0	0	0.6	**0.6**
Disposals	0	0	0	0	**0**
Revaluations	0	0	1.6	0	**1.6**
Impairment losses/(reversals) recognised in Revaluation Reserve	0	0	(0.1)	0	**(0.1)**
31st March 2012	**5.9**	**0.2**	**15.2**	**0.9**	**22.2**
Additions	0	0	0	3.0	**3.0**
Disposals	(0.1)	0	0	0	**(0.1)**
Revaluations	0	0	0.3	0	**0.3**
Impairment losses/(reversals) recognised in Revaluation Reserve	0	0	0	0	**0**
31st March 2013	**5.8**	**0.2**	**15.5**	**3.9**	**25.4**

Fine Arts Collection

This classification has a total value of £5.8m, which includes exhibits held at Torre Abbey which have an insurance valuation of £5.4m. The valuation was undertaken by external valuers, Bearnes, in 2010. The collection includes William Holman Hunt's "The Children's Holiday" which has an insurance valuation of £1.2m. There are a large number of exhibits at Torre Abbey that are not included in the valuation due to their low item value. Further details of the exhibits included in this collection are available on the council's website at:-

http://www.torre-abbey.org.uk/collections.php

The above website also provides information on visiting the Abbey.

The Council's 'Acquisition and Disposal Policy for Torre Abbey' is available on the council website:

The Council is still in the process of transferring the information it holds on the Torre Abbey exhibits to a new museum database called 'MODES'. Also included in this classification is fine art from Oldway Mansion and Torquay Town Hall, which has a combined insurance valuation of £0.5m. This valuation was given by external valuers, Bearnes, in 2004.

Mayoral Regalia

Included in this collection are Chains of Office, Badges, Maces and other silver items. The collection was last valued by external valuers, Fattorini, in 2005. Some items were revalued in 2010 and a general uplift to values was applied in 2011.

Heritage Property

A number of the Council's property assets have been recognised on the balance sheet as Heritage Assets. Most of these assets are not insured so are held at historic cost, for example the D Day Embarkation Ramps. Of the property assets with an insurance valuation, Torre Abbey Mansion is the most significant being valued at £12.3m. In addition there is £3.9m of asset under construction in relation to ongoing major project at Torre Abbey.

The Council also has properties that although culturally and historically important, are being used for operational purposes. As this purpose is more relevant to users of the financial statements these assets have been classified under the heading 'Property, Plant and Equipment' on the balance sheet. For example these assets include Torquay Town Hall and Electric House which are used as office accommodation and Cockington Court which is used for operational purposes. The Council uses an external RICS qualified valuer to provide property reinstatement valuations for insurance purposes. A summary of transactions relating to heritage assets for 2012/13 and two prior years, since the requirement to account for these assets was introduced, is shown in the table below.

	2010/11	**2011/12**	**2012/13**
Cost of Acquisitions and Enhancements:-	**£m**	**£m**	**£m**
- Mallock Memorial enhancement	0.2	0	0
- Torre Abbey – asset under construction	0.2	0.6	3.0
Value of any Asset Disposed			
- Fine Art	0	0	(0.1)
Impairment			
- Heritage Property	0	(0.1)	0

16. Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Long Term	Current		Long Term	Current
31 March 2012 £m			**31 March 2013 £m**	
		Investments		
0.0	58.3	Loans and receivables	**5.0**	**47.6**
2.8	0	Available-for-sale financial assets	**3.1**	**0**
0	36.1	Financial assets at fair value through profit and loss	**0**	**29.9**
2.8	94.4	**Total investments**	**8.1**	**77.5**
		Cash & Cash Equivalents		
0	2.1	Cash in hand and Bank (net)	**0**	**(2.3)**
0	9.6	Loans and receivables	**0**	**0**
0	0.1	Available-for-sale financial assets	**0**	**0.1**
0	11.8	**Total Cash & Equivalents**	**0**	**(2.2)**
		Debtors (incl. Payments in Advance)		
2.9	10.7	Financial assets carried at contract amounts	**3.0**	**14.8**
2.9	10.7	**Total Debtors**	**3.0**	**14.8**
		Borrowings/Liabilities		
(153.7)	(2.0)	Financial liabilities at amortised cost	**(148.3)**	**(1.9)**
(153.7)	(2.0)	**Total borrowings**	**(148.3)**	**(1.9)**
		Other Long Term Liabilities		
(9.3)	(0.4)	PFI liability	**(8.8)**	**(0.4)**
(1.0)	0	Financial Guarantees	**(1.0)**	**0**
(10.3)	(0.4)	**Total other long term liabilities**	**(9.8)**	**(0.4)**
		Creditors (incl. receipts in advance)		
(1.2)	(37.4)	Financial liabilities carried at contract amount	**(1.5)**	**(22.9)**
(1.2)	(37.4)	**Total Creditors**	**(1.5)**	**(22.9)**
(159.5)	77.1	**Total All Financial Instruments**	**(148.5)**	**64.9**

During the year the Council has not reclassified any financial instruments or pledged any financial assets as collateral for liabilities or contingent liabilities or has any loans payable including interest due in default. The main measurement bases used by the Council in preparing the treatment of Financial Instruments within its financial statement are as follows:

Financial Instrument	Basis of measurement	Note
Investments – fixed rate	Carrying value adjusted for interest owed at year end	Investment have both fixed term and fixed interest rates
Investments – Money Market Funds	Increase in carrying value reflected in Balance Sheet and not recognised in Income & Expenditure Account until realised	Minimal balances at year end as investment realised before year end. Interest rate determinable on 1st April.
Investments – Fund Manager	Treated as a Financial Instrument at Fair Value through Profit and Loss as the fund is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.	Fund Manager and Treasury Management advisor have confirmed that the carrying value of the fund at 31st March is the fair value of the Fund.
Investments – Subsidiaries	Fair value of subsidiary is net equity of subsidiary unless negative where the fair value is nil.	Included Torbay Economic Development Company and English Riviera Tourism Company
Investments – Other	Held at carrying value on basis of materiality	
Contractual Debt/payables	Held at invoiced or billed amount less an estimate of impairment for the uncollectability of that debt.	Excludes non contractual debt such as Council tax and NNDR
PWLB Debt	Carrying value adjusted for interest due at year end	Borrowing is both fixed term and fixed interest rates
LOBO Debt	Balance measured using the effective interest rate (if a stepped rate) or fixed rate (if a vanilla/flat rate) within the contract for the maximum life of the deal	Rate calculated over full term assuming the options within the contract are not exercised.
Financial Guarantee	Balance measured by applying a range of probabilities to the risk of the guarantee being called or payment made.	Only guarantee in this category is to Torbay Coast and Countryside Trust.
Financial Instruments under adverse economic conditions	All financial instruments assessed for impairment from economic conditions	As appropriate the impairment for contractual debt will be reviewed. The Council does not hold any investments which it has assessed to be subject to any impairment.

The Council in compiling its accounts assessed all its financial instruments and there were a number that were not considered material to make adjustment to the carrying value of the asset or liability.

Income, Expense, Gains and Losses

	2011/12				**2012/13**			
	Financial Liabilities	**Financial Assets**			**Financial Liabilities**	**Financial Assets**		
	Liabilities measured at amortised cost £m	Loans and receivables £m	Assets and Liabilities at Fair Value through Profit and Loss £m	Total £m	**Liabilities measured at amortised cost £m**	**Loans and receivables £m**	**Assets and Liabilities at Fair Value through Profit and Loss £m**	**Total £m**
Interest expense	4.7	0	0	4.7	**5.0**	**0**	**0**	**5.0**
Reductions in fair value re interest due	2.0	0	0	2.0	**1.9**	**0**	**0**	**1.9**
Total expense in Surplus or Deficit on the Provision of Services	6.7	0	0	6.7	**6.9**	**0**	**0**	**6.9**
Interest income	0	(0.7)	0	(0.7)	**0**	**(0.7)**	**0**	**(0.7)**
Increases in fair value	0	(0.4)	(0.5)	(0.9)	**0**	**(0.6)**	**(0.5)**	**(1.1)**
Total income in Surplus or Deficit on the Provision of Services	0	(1.1)	(0.5)	(1.6)	**0**	**(1.3)**	**(0.5)**	**(1.8)**
Net gain/(loss) for the year	6.7	(1.1)	(0.5)	5.1	**6.9**	**(1.3)**	**(0.5)**	**5.1**

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

For PWLB debt the fair value has been assessed by using PWLB rates for new loans as at 31st March 2013, and then matched, as appropriate, to the duration on an existing maturity. No early repayment or impairment is recognised. For LOBO debt the fair value has been assessed by using a discount rate for LOBOs of similar length and structure with a comparable lender as at 31st March 2013.

For Investments, such as fixed term deposits where the rate is fixed, the fair value has been assessed by using a discount rate for deposits of similar length with a comparable lender as at 31st March 2013. For investments held in higher earning “cash” accounts the fair value is assumed to be the same as the nominal value of the deposit.

The fair value of debtors and creditors is taken to be the invoiced or billed amount. The table below shows the fair values of assets and liabilities where the fair value is different to the value shown in the Council balance sheet – the “carrying value”:

	31 March 2012		**31 March 2013**	
	Carrying amount £m	**Fair value £m**	**Carrying amount £m**	**Fair value £m**
Financial Assets:				
Loans and Receivables:				
- Short Term Loans	58.3	58.6	**47.6**	**47.9**
- Long Term Loans	0.0	0.0	**5.1**	**5.1**
Financial Liabilities:				
Borrowing	(155.7)	(158.0)	**(150.2)**	**(163.4)**

The fair value of the loans and receivables (investments) is marginally higher than the carrying amount because the Council’s portfolio of investments includes a number of fixed rate investments where the interest rate receivable is higher than the prevailing market rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2013) arising from a commitment to be paid interest by lenders above current market rates. As the majority of Council investments are under one year and there was as at 31st March a flat profile for interest rates in the short term there is very little difference between the carrying amount and the fair value.

The fair value of the liabilities (borrowing) is higher than the carrying amount because the Council’s portfolio of loans includes a number of fixed rates where the interest rate payable is higher than the rates available for similar loans at the balance sheet date for the term remaining. The commitment to pay interest above current market rates increases the amount the Council would have to pay if the lender requested or agreed to early repayment of the loans.

It should be noted that the PWLB also provided a fair value of the Council’s PWLB debt as at 31st March 2013 of £174.7 million. This is higher than the fair value PWLB amount of £163.4m as the PWLB has used their “premature redemption rate of interest” to calculate fair value. This rate is a more punitive rate than current rates that only applies if a Council repays debt early and is not a realistic view as it is unlikely that the Council would repay/reschedule loans while they were lower than current levels.

17 Nature and Extent of Risks Arising from Financial Instruments

The Council’s activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock movements

The Council's overall risk management programme (as outlined in its Treasury Management Strategy) focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Council's treasury team, under policies and practices approved by full Council in March 2010. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash. The Council's treasury team also, as required, make in year adjustments in the event of changing circumstances such as economic pressures impacting on rates or changes to investment counterparty lists.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the Council's customers. Deposits are not made with banks and financial institutions unless they have a sufficiently high credit rating, as designated by independent credit rating agencies, or other strong measure of security such as a central government guarantee with a minimum sovereign rating of "AAA"/"AA+", with a range of investment limits relating to both value and length of deposit depending on rating. The system of counterparty selection includes a sophisticated modelling approach which combines credit ratings, credit watches, credit outlooks and credit default swaps (CDS) spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the value and durational limits for each counterparty. The Council's fund manager also complied with a list of approved institutions with appropriate maximum holdings.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectability, adjusted to reflect current market conditions.

	Amount at 31/3/13	Historical experience of default	Historical experience adjusted for market conditions at 31/3/13	Estimated maximum exposure to default and uncollectability at 31/3/13
	£m	%	%	£m
Deposits with banks and other financial institutions	47.6	0%	0%	0
Deposits held by Fund manager	29.9	0%	0%	0
Trade and other Receivables – Sundry Debt	2.9	1.0%	5%	0.1
Total	**80.4**			**0.1**

The Council does not generally allow credit to customers. In reviewing the Council's sundry debt £0.8 million of its sundry debt of the £2.9 million balance is over three months due for payment. The past due amount can be analysed by age as follows:

31/03/12		**31/03/13**
£m		**£m**
2.8	Less than 3 months	**2.1**
0.3	Three months to one year	**0.4**
0.5	More than one year	**0.4**
3.6	**Total**	**2.9**

At year end the level of impairment for all Council debt is assessed and reflected in the value of the impairment disclosed on the balance sheet within the debtors total and disclosed in the debtors note (note 20).

Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loans Board and a short term overdraft facility, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead there is a risk that the Council will be bound to replenish a proportion of its borrowings at a time of unfavourable interest rates. The Council's treasury team aim to ensure that the Council's borrowing portfolio is spread over a range of maturities by a combination of careful planning of new loans taken out and, (where it is economic to do so), rescheduling debt.

The maturity analysis of fixed rate borrowing at fair value is as follows:

£m		**£m**
31/03/12		**31/03/13**
2.0	Less than one year	**1.9**
0.0	Between one and two years	**0.0**
1.0	Between two and five years	**4.0**
16.0	Between five and ten years	**15.0**
22.8	Between ten and twenty years	**25.3**
35.7	Between twenty and thirty years	**34.3**
78.2	Above thirty years	**69.7**
155.7	**Total**	**150.2**

The Council monitors and manages its cash flow on a daily basis to ensure it has, at all times, short term liquidity to meet payables and other liabilities.

Market Risk

There are three market related risks the Council is aware of: Interest Rate Risk, Price Risk and Foreign Exchange Risk. Further detail of each risk is outlined below:

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowing and investments. Movements in interest rates have a complex impact on the Council. For example a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expenses charged to the Comprehensive Income and

Expenditure will rise

- borrowings at fixed rates - the fair value of the liabilities borrowings will rise
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure will rise
- investments at fixed rates - the fair value of the assets will fall

Where the Council has borrowed on a fixed rate basis there will be no variation between the carrying value and fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure account or Movement in Reserves Statement (MIRS). However any changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure and effect the general Fund Balance.

The Council has a number of strategies for managing interest rate risk. Its policy is to limit its exposure to variable rate loans. As at 31st March 2013 the Council had no borrowing at variable interest rates with £10m on market loans (LOBO) where in future years the rates could vary.

The Council's treasury management team has an active strategy for assessing interest rate exposure that supports the setting of the annual budget and which is used to proactively manage the Council's investments and borrowings during a year.

If on the 31st March 2013 the interest rates are 1% higher than the actual interest rates the financial impact would be:

a) Borrowing:

The Council had no variable rate borrowing as at 31st March 2013 so there would be no impact.

b) Investments

It is reasonable to assume that the Council's investments in "cash" accounts, money market funds and the fund manger should increase by the change in interest rates. If the Council's investment in these instruments were maintained at the level as at 31st March 2013 for a full financial year, this would generate an additional £0.4m over a year. It should be noted that if the interest rate increase was forecast it is likely the profile of fixed rate deposits would have been invested on that basis.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The only additional issue is that if the Council had a number of callable deposits which are more likely to be called (repaid) by the borrower in a falling rate environment, which would result in the Council having to reinvest at potentially lower interest rates.

Price Risk

The Council does not generally invest in equity shares. The Council does have an equity interest in a number of companies (see note 42). Of these, only the share holding in TOR2 could lead to a realised share of profits.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies (except for an occasional non sterling creditor payment) and thus have no exposure to loss arising from movements in exchange rates.

18 Investments

Long Term Investments

Long term investments comprise any cash investments the Council has made with a maturity in excess on one year and the fair value of its investments in its subsidiaries.

Total Invested 31st March 2012 £ m	Analysis of Investments by due dates	**Total Invested 31st March 2013 £ m**
0	Money Market Investments	**5.0**
2.8	Economic Development Company (EDC)	**3.1**
2.8	**Total**	**8.1**

The movement in the year of the investment value of the Council subsidiaries are shown in the table below:

2011/12 Investment in Subsidiaries £m			**2012/13 Investment in Subsidies £m**	
EDC	**ERTC**		**EDC**	**ERTC**
0	**0**	Balance at start of year:	**2.8**	**0**
2.8	**0**	Change in fair value of Company	**0.3**	**0**
2.8	**0**	Fair Value as at 31st March	**3.1**	**0**

As at 31st March 2013 the Council has money market investments with a maturity of greater than one year of £5.0 million (2011/12 £0m). The table below shows an analysis of the Money Market Investments repayments, (principal only):

Total Invested 31st March 2012 £ m	**Analysis of Investments by due dates**	**Total Invested 31st March 2013 £ m**
0	1 up to 2 years	**5.0**
0	Total	**5.0**

Short Term Investments

Temporary investments are short term investments with a maturity less than one year that are held for investment purposes not short term cash flow liquidity. As at 31st March 2013 the Council held £76.9 million (2011/12 £94.0m) of short-term (money market) investments (principal only), of which £29.9 million (2011/12 £36.1m) is held by the Council's fund manager – Scottish Widows Investment Partnership.

Total Invested 31st March 2012 £ m		**Total Invested 31st March 2013 £ m**
	Short Term Investments - less than 1 year	
52.0	- Cash Deposits	**39.0**
5.9	- Notice/Call Accounts	**8.0**
36.1	- Fund Manager *	**29.9**
94.0	Total Temporary Investments	**76.9**
94.4	*Fair Value as at 31st March - including interest due*	*77.5*

Note * - The Council has designated its holding with Scottish Widows at Fair Value through Profit and Loss as, in substance, the Council's holding is part of a portfolio of identified financial instruments that are managed together and there is evidence of short term profit making.

19. Assets Held for Sale

All assets classified as being Held for Sale are expected to be sold within the next 12 months.

2011/12 £m		**2012/13 £m**
1.1	**Balance at start of year**	**0.7**
	Assets newly classified as held for sale:	
0.6	- Property, Plant and Equipment	**2.2**
(0.1)	Revaluation losses	**(0.2)**
	Assets declassified as held for sale:	
(0.7)	- Property, Plant and Equipment	**0**
(0.2)	Assets sold	**(0.7)**
0.7	**Balance at year-end**	**2.0**

20 Debtors

Debtors represent monies owed to the Council and include deposits and payments in advance.

Long Term Debtors

Debtors due after one year:

31 March 2012		31 March 2013
£m		£m
0.2	Other Long Term Debtors	**0.2**
0.2	Loan - PLUSS	**0.2**
0.4	Sub total: Long term debtors	**0.4**
2.3	Torquay Marina	**2.3**
0.2	Cremator Replacement	**0.3**
2.5	Sub total: recognised under IFRS accounting	**2.6**
2.9	**Total Long Term Debtors**	**3.0**

Current Debtors (Due within one year including payments in advance)

31 March 2012		31 March 2013
£m		£m
2.4	Central government bodies (WGA)	**7.9**
2.4	Other local authorities and public bodies	**1.3**
0.6	NHS bodies	**0.5**
3.4	Council Tax (inc. liability orders)	**3.5**
2.2	Housing Benefit	**2.5**
7.8	Other entities and individuals	**6.6**
18.8	**Total**	**22.3**
(5.1)	**Impairment (uncollectibility of debt)**	**(5.3)**
13.7		**17.0**

21. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2012		**31 March 2013**
£m		**£m**
2.1	Bank current accounts	**(2.3)**
9.7	Short-term deposits with Money Market Funds and Liquidity Accounts	**0.1**
11.8	**Total Cash and Cash Equivalents**	**(2.2)**
11.8	*Current Assets*	*2.1*
0	*Current Liabilities*	*(4.3)*
11.8	*Total Cash and Cash Equivalents*	*(2.2)*

22 Creditors

Represents monies owed by the Council

Long Term Creditors

31 March 2012		**31 March 2013**
£m		**£m**
1.0	PFI Renewal Fund	**1.2**
0.2	Other long term creditors	**0.3**
1.2	**Total Long Term Creditors**	**1.5**

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Current Creditors (due within one year including revenue receipts in advance)

31 March 2012		**31 March 2013**
£m		**£m**
3.2	Central government bodies (WGA)	**3.5**
2.6	Other local authorities and public bodies	**3.1**
11.9	NHS bodies	**0.1**
19.7	Other entities and individuals	**16.2**
37.4	**Total**	**22.9**

Capital Grants & Contributions – Received in Advance

These represent capital grants and contributions where the funding contains a condition which prevents the Council from recognising this income in its Comprehensive Income and Expenditure statement until the condition is met. Note: This accounting recognition of income does not prevent the Council using these funds for capital financing purposes.

31 March 2012		**31 March 2013**
£m		**£m**
0	Capital Grants – received but unused	**0.5**
0.7	Capital Grants - used in capital financing	**2.2**
0.7	Capital Contributions– received but unused	**0.9**
0	Capital Contributions – used in capital financing	**0**
1.4	**Total Grants & Contributions**	**3.6**
0.9	Expected to be used within 1 year	3.6
0.5	Expected to be used after 1 year	0.0

23. Provisions

Represents monies potentially owed by the Council but the timing and value of the payment is uncertain.

	Insurance £m	**Local Pay Review £m**	**Restructure & Reductions £m**	**Other Provisions £m**	**Total £m**
- Due under one year	0.4	0.1	0.6	0.3	1.4
- Due over one year	0.2	0	0	0	0.2
Balance at 31st March 2012	0.6	0.1	0.6	0.3	1.6
Provisions made in 2012/13	0.4	0	0.4	0.8	1.6
Amounts used in 2012/13	(0.3)	(0.1)	(0.6)	(0.3)	(1.3)
Balance at 31 March 2013	**0.7**	**0**	**0.4**	**0.8**	**1.9**
- Due Under one year	*0.5*	*0*	*0.4*	*0.8*	*1.7*
- Due over one year	*0.2*	*0*	*0*	*0*	*0.2*
Balance at 31 March 2013	*0.7*	*0*	*0.4*	*0.8*	*1.9*

Description of Provisions held by the Council

Name of Provision	**Description of Provision**
Insurance	Reflects a reliable estimate of Council liability on all known claims outstanding as at 31st March, which have yet to be settled. The timing of spend will be up to three years depending on claim type. For 12/13 the provision now includes an element (£0.1m) for the Council's share of costs in relation to its previous insurer (Municipal Mutual Insurance).
Restructure & Reductions	Provision to meet liabilities of implementing the Council's budget reductions for 2012/13 and management restructure based on decisions made by 31st March 2013.
Other Provisions	These include provisions for the Carbon Allowances scheme, potential repayment of a grant in relation to Brixham Town Square and dilapidations for a property the Council has passed back to he landlord.

24 Borrowing

This heading reflects the borrowing undertaken by the Council to fund its approved capital programme. Any costs of borrowing are reflected in the Comprehensive Income and Expenditure Statement for interest charges and the Minimum Revenue Provision for the repayment of debt. Central Government will recognise the costs of any historic "supported" borrowing within the Council's annual funding settlement. Any "unsupported" borrowing undertaken using the Prudential Code will have to be funded from within Council resources.

31st March 2012 Principal £ m	**Borrowing Repayable**	**31 March 2013 Principal £ m**
	Amounts falling due within one year	
0	Public Works Loans Board & LOBO	**0**
0		**0**
	Amounts falling due in excess of one year	
10.0	Money Market (LOBO)	**10.0**
143.5	Public Works Loans Board	**138.1**
153.5		**148.1**
153.5	**Total**	**148.1**
155.7	*Fair Value as at 31st March - including interest due*	*150.2*

The table below shows an analysis of the maturity of loans repayable: - (by principal outstanding).

Total Principal Outstanding 31st March 2012 £ m	**Analysis of Loans by Maturity**	**Average Interest Rate**	**Total Principal Outstanding 31st March 2013 £ m**
0	Within 1 year	-	**0**
0	1 up to 2 years	-	**0**
0	2 up to 3 years	-	**0**
0	3 up to 4 years	-	**0**
1.0	4 up to 5 years	4.0%	**4.0**
16.0	5 up to 10 years	3.8%	**15.0**
14.8	10 up to 15 years	4.4%	**14.8**
8.0	15 up to 20 years	4.1%	**10.4**
18.6	20 up to 25 years	5.0%	**18.9**
95.1	Over 25 years	4.3%	**85.0**
153.5	Total	4.3%	**148.1**
155.7	*Fair Value as at 31st March - including interest due*		*150.2*

Lenders Option Borrowers Option (LOBO)

The Council has two LOBO loans (Lenders Option Borrowers Option). There is one with Barclays Bank where after a short initial period of low interest, it then moved to a higher rate during 2009/10. The second, taken in 2008/09 with Dexia has, at inception, a constant rate of interest for the length of the loan but only fixed for the initial period. On both loans the lender has the option to increase the rate beyond the agreed rates after the initial period and at agreed intervals thereafter. The borrower then has the option to continue at the higher rate or repay the loan incurring no penalty. The loan will continue for the full term at the agreed rate unless the lender exercises the option to increase the rate of interest.

25 Liabilities

These relate to contracts or agreements that the Council has entered into that guarantee future payments to a third party.

31 March 2012 £m		**31 March 2013 £m**
	Liabilities due within 1 year	
0.4	PFI Liability	**0.4**
0	Financial Guarantees	**0**
0.4	**Total due within 1 year**	**0.4**
	Liabilities due over 1 year	
9.3	PFI Liability	**8.8**
1.0	Financial Guarantees	**1.0**
10.3	**Total due over 1 year**	**9.8**
10.7	**Total Liabilities**	**10.2**

Westland and Homelands Schools PFI Scheme

A Project Agreement was signed on 31st March 2000 with Torbay School Services Ltd (TSS) for the provision of serviced facilities at Westlands Secondary and Homelands Primary Schools in Torquay. The period of the contract is 26 years from the actual completion of the redevelopment of the Westlands School buildings, which occurred on 24th October 2001 (i.e. expires in 2027). Payments under the contract commenced on 1st April 2001 when Phase 1 of Westlands was completed. The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the schools and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the schools. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. There were no changes to the contract arrangements during the year.

PFI Property Plant and Equipment

The assets used to provide services at both schools are recognised on the Council's Balance Sheet. Since the PFI contract started Westlands school became a Foundation School therefore the asset was derecognised. The Council has retained the liability to the PFI contractor. Westlands school is expected to transfer to academy status in 2013/14 however the accounting treatment will not change.

PFI Payments

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. In relation to this contract the Council recognises as a liability on its balance sheet the element of this annual payment that relates to the construction and purchase of the two schools. The other elements of the contract, finance costs and service charges are recognised on an annual basis in the Council's Comprehensive Income and Expenditure account. Payments remaining to be made under the PFI contract at 31 March 2013 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services * £m	Reimbursement of Capital Expenditure £m	Interest £m	Total £m
Payable in 2013/14	1.7	0.4	0.5	2.6
Payable within 2 to 5 years	6.6	2.0	1.7	10.3
Payable within 6 to 10 years	8.3	3.2	1.4	12.9
Payable within 11 to 15 years	7.5	3.6	0.5	11.6
Total	**24.1**	**9.2**	**4.1**	**37.4**

* Assumption that the total annual payment for all three elements to the contractor will remain constant (ignoring inflation) until 2027/28 when the contract finishes.

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

2011/12 £m		2012/13 £m
10.1	Balance outstanding at start of year	9.7
(0.4)	Payments during the year	(0.5)
9.7	**Balance outstanding at year-end**	**9.2**

Financial Guarantees

Torbay Coast and Countryside Trust

The Council has agreed to act as a guarantor to the Torbay Coast and Countryside Trust for £975,000 (£975,000 2011/2012). This is relating to a bank loan and an overdraft facility, in respect of capital work and trading at Occombe Farm.

As at 31st March 2013 the fair value of this guarantee was £975,000 (£975,000 2011/12). On the basis of the TCCT financial plans there are no plans for the TCCT to be able to clear their debts in the short term without the Council agreeing to sell land leased to the TCCT. The fair value of the guarantee has been assessed at its full value. This change in value of the fair value of the guarantee has been reflected in the Council's Income and Expenditure Account and balance sheet.

Under Statutory Instrument 414/2008 (30F) the Council is allowed to neutralise the overall impact of this guarantee on its accounts until the "risk subsists".

26 Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and each reserve is shown in the table below:

31 March 2012 £m		31 March 2013 £m
4.0	General Fund Reserve	**4.4**
33.4	Earmarked Reserves – see note 8	**29.9**
0	Usable Capital Receipts Reserve	**0.7**
13.8	Capital Grants & Contributions Unapplied	**11.7**
51.2	**Total Usable Reserves**	**46.7**

Details of movement in the individual usable reserves are in the tables below, except the movements in earmarked reserves which are detailed in note 8

26.1 Usable Capital Receipts Reserve

This reserve holds the balance of any capital receipts at the end of each financial year that have been received and recognised as income in the Comprehensive Income and Expenditure Account but not yet applied to finance capital expenditure.

2011/12 £m		2012/13 £m
0.5	**Balance at 1 April**	**0**
0.8	Transfer of sale proceeds credited as part of gains/loss on disposal to the Comprehensive Income and Expenditure Statement.	1.4
(1.3)	Transfer to Capital Adjustment Account when applied to finance capital expenditure	(0.7)
0	**Balance at 31 March**	**0.7**

26.2 Capital Grants and Contributions Unapplied Reserve

This reserve holds the balance of any capital grants and contributions at the end of each financial year that have been received and recognised as income in the Comprehensive Income and Expenditure Account but not yet applied to finance capital expenditure.

2011/12 £m		2012/13 £m
17.0	**Balance at 1 April**	**13.8**
4.5	Transfer of capital grants & contributions recognised in the Comprehensive Income and Expenditure Statement but not yet applied finance capital expenditure.	4.8
(7.7)	Transfer to Capital Adjustment Account when applied to finance capital expenditure	(6.9)
13.8	**Balance at 31 March**	**11.7**

27. Unusable Reserves

Movements in the Council's unusable reserves are detailed in the Movement in Reserves Statement and each reserve is shown in the table below:

31 March 2012 £m		31 March 2013 £m
57.8	Revaluation Reserve	**53.7**
146.8	Capital Adjustment Account	**94.8**
(1.1)	Financial Instruments: Adjustment Account	**(1.1)**
2.8	Financial Instruments: Available for Sale	**3.1**
(123.5)	Pensions Reserve	**(125.3)**
2.6	Collection Fund Adjustment Account	**1.8**
(2.6)	Accumulating Compensated Absences Adjustment Account	**(2.0)**
82.8	**Total Unusable Reserves**	**25.0**

27.1 Revaluation Reserve

The Revaluation Reserve contains the net gains made by the Council arising from increases in the value of its Property, Plant and Equipment, Intangible Assets and the "frozen" revaluation gains in assets now classified as Investment Properties or as Assets Held for Sale. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

2011/12 £m		2012/13 £m
46.6	**Balance at 1 April**	**57.8**
-	Adjustment to Opening Balance	**(3.3)**
14.7	Revaluation of assets	**4.6**
14.7	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**1.3**
0	Adjustment to Opening Balance	**0.2**
(0.6)	Difference between fair value depreciation and historical cost depreciation	**(0.9)**
(2.9)	Accumulated gains on assets sold or scrapped	**(4.7)**
(3.5)	Amount written off to the Capital Adjustment Account	**(5.4)**
57.8	**Balance at 31 March**	**53.7**

27.2 Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and accumulated losses on Assets held for Sale that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on non current assets before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 contains details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2011/12 £m Restated		2012/13 £m	
167.5	**Balance at 1 April**		**146.8**
(2.2)	Adjustment to Opening Balance		**0**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(23.4)	• Charges for depreciation and impairment of non current assets	**(9.5)**	
(0.3)	• Amortisation of intangible assets	**(0.2)**	
(2.9)	• Revenue expenditure funded from capital under statute	**(5.6)**	
0.1	• Notional Rent Credit	**0.1**	
(21.5)	• Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**(60.2)**	
(48.0)		**(75.4)**	
3.5	Adjusting amounts written out of the Revaluation Reserve	**5.4**	
(44.5)	Net written out amount of the cost of non current assets consumed in the year		**(70.0)**
	Capital financing applied in the year:		
1.3	• Use of the Capital Receipts Reserve to finance new capital expenditure	**0.7**	
12.4	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**4.7**	
7.7	• Application of grants to capital financing from the Capital Grants Unapplied Account	**6.9**	
3.9	• Statutory provision for the financing of capital investment charged against the General Fund	**5.0**	
0.9	• Capital expenditure charged against the General Fund	**0.8**	
26.2			**18.1**
(0.1)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		**0.1**
(0.1)	Movements in the market value of Assets Held for Sale debited or credited to the Comprehensive Income and Expenditure Statement		**(0.2)**
146.8	**Balance at 31 March**		**94.8**

27.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments such as the fair value of guarantees and for bearing losses or benefiting from gains per statutory provisions.

2011/12 £m		2012/13 £m
(0.3)	**Balance at 1 April**	**(1.1)**
(0.8)	Costs incurred in the year and charged to the Comprehensive Income and Expenditure Statement	**0**
0	Proportion of costs incurred in previous financial years to be credited to General Fund Balance in accordance with statutory requirements	**0**
(0.8)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	**0**
(1.1)	**Balance at 31 March**	**(1.1)**

27.4 Financial Instruments Available For Sale Adjustment Account

The Financial Instruments Available for Sale reflects the movement in fair value of the Councils investments held as financial assets at fair value – the Council's investments in its subsidiary companies the Torbay Economic Development Company and the English Riviera Tourism Company.

2011/12 £m		**2012/13 £m**
0	**Balance at 1 April**	**2.8**
2.8	Unrealised (gain)/loss in Fair Value of Investment in Year	**0.3**
2.8	**Balance at 31 March**	**3.1**

27.5 Pensions Reserve - (Funded and Unfunded Liabilites)

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

Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside, (usually by means of adjusting contribution rates), by the time the benefits come to be paid.

2011/12 £m		**2012/13 £m**
(76.6)	**Balance at 1 April**	**(123.5)**
(46.0)	Actuarial gains or (losses) on pensions assets and liabilities	**(0.8)**
(8.4)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	**(9.0)**
7.5	Employer's pensions contributions and direct payments to pensioners payable in the year	**8.0**
(123.5)	**Balance at 31 March**	**(125.3)**

27.6 Collection Fund Adjustment Account

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

2011/12 £m		**2012/13 £m**
1.8	**Balance at 1 April**	**2.6**
0.8	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	**(0.8)**
2.6	**Balance at 31 March**	**1.8**

27.7 Accumulating Compensated Absences Adjustment Account

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

2011/12 £m		2012/13 £m
(3.0)	**Balance at 1 April**	**(2.6)**
3.0	Settlement or cancellation of accrual made at the end of the preceding year	**2.6**
(2.6)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(2.0)**
(2.6)	**Balance at 31 March**	**(2.0)**

28 Cash Flow- Adjustment to net surplus or deficit on Provision of Services for Non Cash items

The table below lists the adjustments required in the cash flow statement to reverse non cash items accounted for in the Provision of Services in the Comprehensive Income and Expenditure Account.

2011/12 £m	Non Cash Movements in Provision Of Services	2012/13 £m
23.4	Depreciation, Impairment & downward valuations	**9.5**
0.3	Amortisation	**0.2**
(3.3)	Increase/(Decrease) in Creditors	**(10.8)**
(1.3)	(Increase)/Decrease in Debtors including impairment for bad debts	**(2.6)**
(0.9)	Movement in pension liability	**1.0**
21.7	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	**60.2**
1.9	Other non-cash items charged to the net surplus or deficit on the provision of services	**0.3**
41.8		**57.8**

29 Cash Flow – Adjustment for items included in the net surplus or deficit on the Provision of Services that are investing and financing activities.

The table below lists the adjustments required in the cash flow statement to reverse items for investing and financing activities that are accounted for in the Provision of Services in the Comprehensive Income and Expenditure Account

2011/12 £m	Investing and Financing Activities in Provision Of Services	2012/13 £m
(0.3)	Proceeds from short-term (not considered to be cash equivalents) and long-term investments.	**(0.4)**
(0.9)	Proceeds from the sale of Property, Plant & Equipment, Investment Properties and Intangible Assets.	**(1.4)**
(1.2)		**(1.8)**

30. Cash Flow Statement – Operating Activities – Interest Paid & Received

The cash flows for operating activities include the following items:

2011/12 £m		2012/13 £m
1.4	Interest received	**2.2**
(6.3)	Interest paid	**(7.0)**
(4.9)	**Total Interest Received & Paid**	**(4.8)**

31 Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

2011/12 £m		2012/13 £m
(18.6)	Purchase of property, plant and equipment, investment property and intangible assets	**(14.3)**
0.0	Purchase of short-term and long-term investments	**0**
0.9	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**1.4**
21.2	Proceeds from short-term and long-term investments	**12.4**
3.5	Net cash in/(out) flows from investing activities	**(0.5)**

32. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

2011/12 £m		2012/13 £m
0	Cash receipts from short- and long-term borrowing	**0**
(0.4)	Cash payments for the reduction of the outstanding liabilities relating to transferred debt and on-balance sheet PFI contracts	**(0.4)**
-	Council Tax and NNDR adjustments	**(0.6)**
(9.0)	Repayments of short- and long-term borrowing	**(5.4)**
(9.4)	**Net cash in/(out) flows from financing activities**	**(6.4)**

33. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Mayor and Council on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges in relation to capital expenditure are included on the management reports (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on support services is budgeted for and included in management reports but not allocated to services.
- Expenditure on capital financing such as minimum revenue provision are included in management reports but not charged to services in the Comprehensive Income and Expenditure Statement.
- Transactions with bodies within the Council's group are included in within management reporting but other group transactions are not included.

The income and expenditure of the Council's four directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure	**Adults and Resources**	**Childrens, Schools & Families**	**Public Health & Community Safety**	**Place & Resources**	**Total**
2012/13	**£m**	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service Income:	(3.3)	(11.1)	(1.6)	(24.7)	(40.7)
Government grants	0	(68.9)	(0.1)	(91.5)	(160.5)
Total Income	**(3.3)**	**(80.0)**	**(1.7)**	**(116.2)**	**(201.2)**
Employee expenses	6.0	59.3	3.1	18.6	**87.0**
Other service expenses	53.8	43.6	1.1	139.1	**237.6**
Total Expenditure	**59.8**	**102.9**	**4.2**	**157.7**	**324.6**
Net Expenditure	**56.5**	**22.9**	**2.5**	**41.5**	**123.4**

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

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

	2011/12	**2012/13**
	£m	**£m**
Net expenditure in the Directorate Analysis	125.8	123.4
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	22.3	8.5
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(8.2)	(4.3)
Cost of Services in Comprehensive Income and Expenditure Statement	**139.9**	**127.6**

The following table shows the management structure used in 2012/13 restated as if it were in use in 2011/12.

Directorate Income and Expenditure **2011/12 Comparative Figures**	**Adults and Resources** **£m**	**Childrens, Schools & Families** **£m**	**Public Health & Community Safety** **£m**	**Place & Resources** **£m**	**Total** **£m**
Fees, charges & other service income	(3.5)	(12.9)	(1.4)	(25.5)	**(43.3)**
Government grants	0	(84.0)	(0.1)	(85.8)	**(169.9)**
Total Income	**(3.5)**	**(96.9)**	**(1.5)**	**(111.3)**	**(213.2)**
Employee expenses	6.3	73.2	3.1	17.5	**100.1**
Other service expenses	55.1	46.4	0.9	136.5	**238.9**
Total Expenditure	**61.4**	**119.6**	**4.0**	**154.0**	**339.0**
Net Expenditure	**57.9**	**22.7**	**2.5**	**42.7**	**125.8**

This reconciliation shows how the figures in the analysis of [directorate] income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2012/13	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
	£m	£m	£m	£m	£m	£m
Fees, charges & other service income	(40.7)	(2.9)	15.0	**(28.6)**	(1.6)	**(30.2)**
Interest and investment	0	0	0	**0**	(13.1)	**(13.1)**
Income from council tax	0	0	0	**0**	(63.1)	**(63.1)**
Government grants and contributions	(160.5)	(3.6)	3.1	**(161.0)**	(69.2)	**(230.2)**
Total Income	(201.2)	(6.5)	18.1	**(189.6)**	(147.0)	**(336.6)**
Employee expenses	87.0	(0.5)	0	**86.5**	0	**86.5**
Other service expenses	237.6	5.8	(22.4)	**221.0**	0.3	**221.3**
Depreciation, amortisation and impairment	0	9.7	0	**9.7**	0.1	**9.8**
Interest Payments	0	0	0	**0**	21.7	**21.7**
Precepts & Levies	0	0	0	**0**	0.2	**0.2**
Gain or Loss on Disposal of Non Current Assets	0	0	0	**0**	60.2	**60.2**
Total	324.6	15.0	(22.4)	**317.2**	82.5	**399.7**
(Surplus)/Deficit	123.4	8.5	(4.3)	**127.6**	(64.5)	**63.1**

2011/12 **Restated**	**Directorate Analysis**	**Amounts not reported to management for decision making**	**Amounts not included in I&E**	**Cost of Services**	**Corporate Amounts**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service income	(43.3)	0	15.6	**(27.7)**	(1.0)	**(28.7)**
Interest and investment income	0	0	0	**0**	(14.6)	**(14.6)**
Income from council tax	0	0	0	**0**	(63.7)	**(63.7)**
Government grants and contributions	(169.9)	(4.5)	2.3	**(172.1)**	(79.2)	**(251.3)**
Total Income	(213.2)	(4.5)	17.9	**(199.8)**	(158.5)	**(358.3)**
Employee expenses	100.1	(2.0)	0	**98.1**	0	**98.1**
Other service expenses	238.9	4.3	(26.1)	**217.1**	0.2	**217.3**
Depreciation, amortisation and impairment	0	24.5	0	**24.5**	0.1	**24.6**
Interest Payments	0	0	0	**0**	22.1	**22.1**
Precepts & Levies	0	0	0	**0**	0.2	**0.2**
Gain or Loss on Disposal of Non Current Assets	0	0	0	**0**	21.6	**21.6**
Total expenditure	339.0	26.8	(26.1)	**339.7**	44.2	**383.9**
(Surplus) or deficit on the provision of services	125.8	22.3	(8.2)	**139.9**	(114.3)	**25.6**

34. Trading Operations

The Council does not have any internal trading operations that are operated on a fully commercial basis. Where a Council service does include a supply to external customers the income and the relevant expenditure is disclosed within the appropriate service heading in the Comprehensive Income and Expenditure Statement. This includes services such as harbours, car parking, services to schools including academies and external print work. The Council's interests in companies that "trade" are disclosed in the Council's 2012/13 Group Accounts

35. Agency Services

The Council provides professional services to the Environment Agency in relation to rivers and to Pell Frishmann on a contract for South West Water. The value of this work is less than £200,000.

The Council, as a billing Council, also acts as an agent to both Central Government for the collection of NNDR (Business rates) and for the proportion of the collection fund for Council Tax for the major precepting bodies – Devon and Cornwall Police and Devon and Somerset Fire and Rescue Service. The Council is funded for this work within its overall funding.

The Council, as a billing authority, collects the Business Improvement District (BID) Levy on behalf of Torbay Town Centres Limited.

The Council also provides an invoicing and income collection service to the Health and Care NHS Trust for social care and provides a number of services to Academy schools such as personnel, payroll and finance.

36 Pooled Budgets

Under section 75 of the NHS Act 2006, the Council entered into a pooled budget arrangement with Torbay Care Trust for the joint provision of an equipment store for the purchase and distribution of items to meet the social care and health needs of people living in the Torbay area. With the NHS changes the agreement is, from April 2013 with NHS Torbay. The Council and NHS Torbay have an agreement in place for funding these with the partners contributing funds to the agreed budget equal to a 50% split to each partner.

The pooled budget is hosted by the Council as the lead Council on behalf of the two partners to the agreement.

2011/12 £m			2012/13 £m	
		Funding provided to the pooled budget:		
0.6		• the Council	**0.5**	
0.5		• NHS Torbay	**0.6**	
	1.1			**1.1**
		Expenditure met from the pooled budget:		
(0.6)		• The Council	**(0.5)**	
(0.5)		• NHS Torbay	**(0.6)**	
	(1.1)			**(1.1)**
	0	Net surplus/(deficit) on the pooled budget during year		**(0.0)**
	0	Council share of net surplus/(deficit) arising on the pooled budget		**0**
	£000's			**£000's**
	34	Shared surplus for the year		**0**

37. Members' Allowances

Under the Council's Members Allowances scheme the following amounts were paid to members of the Council during the year.

2011/12 £000's		2012/13 £000's
424	Basic and Special Responsibility Allowance	**436**
4	Expenses	**4**
428	Total	**440**

The current Allowances' scheme can be found on the Council's website at

www.torbay.gov.uk/index/council/councillors-democracy/constitution.htm.

38. Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

		Salary £000's	Expenses £000's	Compen-sation for Loss of Office £000's	Pension Contribution at "common rate" £000's	Total £000's
Deputy Chief Executive /Interim Chief Operating Officer	**2012/13**	**103**	**0**	**0**	**15**	**118**
	2011/12	109	1	0	16	126
Elizabeth Raikes - Chief Executive (to October 2012)	**2012/13**	**77**	**0**	**68**	**11**	**156**
	2011/12	151	6	0	24	181
Director of Childrens Services (from August 2011)	**2012/13**	**108**	**0**	**0**	**16**	**124**
	2011/12	71	0	0	10	81
People Commissioner & Director of Childrens Services to July 2011)	**2012/13**	**0**	**0**	**0**	**0**	**0**
	2011/12	80	0	55	7	142
Director of Place and Resources	**2012/13**	**87**	**0**	**0**	**13**	**100**
	2011/12	109	0	0	16	125
Operational Commissioner to January 2012	**2012/13**	**0**	**0**	**0**	**0**	**0**
	2011/12	**78**	0	41	11	130
Chief Finance Officer	**2012/13**	**78**	**0**	**0**	**11**	**89**
	2011/12	**78**	**0**	**0**	**12**	**90**
Chief Finance Officer to June 2011	**2012/13**	**0**	**0**	**0**	**0**	**0**
	2011/12	21	0	43	12	76
Monitoring Officer	**2012/13**	**46**	**0**	**0**	**7**	**53**
	2011/12	46	0	0	7	53

Notes Expenses include any payments in relation to local elections where the Council is responsible for the election.

The number of employees whose taxable remuneration, excluding employer's pension contributions, exceeds £50,000 while employed by Torbay Council is set out in the table below in bands of £5,000. Remuneration for these purposes includes all sums paid or receivable by an employee and sums due by way of allowance (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash.

Number of Employees by employer 2011/12			Remuneration Band	**Number of Employees by employer 2012/13**		
Council	Schools - Council	Schools - Governing Body		**Council**	**Schools - Council**	**Schools - Governing Body**
14	16	4	£50,000 to £54,999	**12**	**9**	**4**
5	9	9	£55,000 to £59,999	**5**	**16**	**9**
8	2	4	£60,000 to £64,999	**5**	**5**	**5**
0	3	1	£65,000 to £69,999	**2**	**4**	**1**
5	2	1	£70,000 to £74,999	**1**	**1**	**0**
1	0	0	£75,000 to £79,999	**2**	**1**	**1**
1	1	1	£80,000 to £84,999	**1**	**0**	**0**
0	0	0	£85,000 to £89,999	**1**	**2**	**1**
1	0	0	£90,000 to £94,999	**1**	**0**	**0**
0	0	0	£95,000 to £99,999	**0**	**1**	**0**
1	1	0	£100,000 to £104,999	**1**	**0**	**0**
2	0	1	£105,000 to £109,999	**1**	**0**	**0**
0	0	0	£110,000 to £114,999	**0**	**0**	**0**
1	1	0	£115,000 to £119,999	**0**	**0**	**0**
0	0	0	£120,000 to £124,999	**0**	**0**	**0**
0	0	0	£125,000 to £129,999	**0**	**0**	**0**
1	0	0	£130,000 to £134,999	**0**	**0**	**0**
0	0	0	£135,000 to £139,999	**0**	**0**	**0**
0	0	0	£140,000 to £144,999	**1**	**0**	**0**
0	0	0	£145,000 to £149,999	**1**	**0**	**0**
0	0	0	£150,000 to £154,999	**0**	**0**	**0**
1	0	0	£155,000 to £159,999	**0**	**0**	**0**
41	35	21		**34**	**39**	**21**

39. External Audit Costs

The Council will incur the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's appointed external auditors who are, from 2012/13, Grant Thornton.

2011/12 £000		**2012/13 £000**
207	Fees payable to Grant Thornton (Audit Commission 11/12) with regard to external audit services carried out by the appointed auditor for the year	**135**
35	Fees payable to Grant Thornton (Audit Commission 11/12) for the certification of grant claims and returns for the year	**19**
0	Fees payable in respect of other services provided by Grant Thornton during the year	**0**
242	Total	**154**

40. Dedicated Schools Grant (DSG)

The Council's expenditure on schools is primarily funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of the DSG is recouped by the Department to fund academy schools in the Council's area.

DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools' budget, as defined in the School Finance (England) Regulations 2011. The Schools' Budget includes elements for a range of educational services provided on a Council wide basis and for the individual Schools' Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012/13 are as follows:

Schools Budget Funded by Dedicated Schools Grant 2012/13	Central Expenditure	Individual Schools Budget	Total
	£m	£m	**£m**
Final DSG for 2012/13 before Academy Recoupment	-	-	**84.2**
Academy figure recouped for 2012/13	-	-	**(28.5)**
Total DSG after Academy Recoupment for 2012/13 *	-	-	**55.7**
Bought Forward from 2011/12	-	-	**0**
Agreed initial budgeted distribution in 2012/13	4.3	51.4	**55.7**
In Year Adjustments	0	0	**0**
Final budgeted distribution for 2012/13	4.3	51.4	**55.7**
Less: Actual Central Expenditure	(4.2)	-	**(4.2)**
Less: Actual ISB deployed to schools	-	(51.4)	**(51.4)**
Carry forward to 2013/14 **	0.1	0	**0.1**

* Value of DSG reflected in Council's Comprehensive Income and Expenditure Statement
** Actual carry forward to 2013/14 is £125,538.

41. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement.

2011/12 £m	Credited to Taxation and Non Specific Grant Income	2012/13 £m
14.7	Revenue Support Grant	**1.1**
0.6	Local Support Services Grant	**0.6**
0.3	New Homes Bonus Grant	**1.1**
1.6	Council Tax Freeze Grant	**1.6**
47.7	NNDR Redistribution	**58.4**
0.5	Grant re PFI Finance costs	**0.5**
13.8	Capital Grants & Contributions	**5.9**
79.2	**Total**	**69.2**

2011/12 £m	Credited to Cost of Services	2012/13 £m
69.4	Dedicated Schools Grant (Department of Education)	**55.7**
82.8	Benefit Subsidy & Admin Grant (Dept of Work & Pensions)	**87.6**
-	Pupil Premium	**2.0**
3.9	Post 16 Funding (Learning & Skills Council)	**3.0**
6.1	Early Intervention Grant	**6.3**
5.4	Other Central Government Grants – Revenue	**2.8**
4.5	Other Central Government Grants – Refcus *	**3.7**
172.1	**Total**	**161.1**

In addition the Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if conditions not met. These balances at the year-end are shown in Note 22.

Note * Refcus Grants are Capital Grants that are used to fund "Revenue Expenditure Funded Under Statute" where the Council has to charge to revenue, capital expenditure where no asset is created, such as spend in relation to Foundation schools where the Council does not recognise the asset on its balance sheet.

42. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council. Any balances due to/from these related parties at the end of a financial year are included within the Council's total debtor and creditor figures.

Interest in Companies

The Council maintains involvement with a number of subsidiary and associated companies. Where the Council has a significant controlling influence in these companies and the transactions are material, they are consolidated within the Council's Group Accounts. The figures included within the Group accounts are based on unaudited accounts.

The companies consolidated in the Group Accounts are:

Company	Accounting basis for consolidation
Torbay Economic Development Company	Subsidiary
English Riviera Tourism Company	Subsidiary
Oldway Management Company	Subsidiary
TOR2 Ltd	Associate
Careers South West	Associate
The PLUSS Organisation Ltd	Associate

Further information on these companies and their relationship with Torbay Council is available in the Council's Group Accounts include a table isting principal activities, board members and year end balances.

The Council has provided pension guarantees to the Torbay Economic Development Company, the English Riviera Tourism Company, PLUSS and Careers South West. Also the Council has provided a bank guarantee and loan to PLUSS. Further details are disclosed in note 44 on Contingent Liabilities.

Other interests in Companies

The following companies are also related to the Council. However they are not considered material in financial terms and they are not consolidated within the Group Accounts:

Torbay Enterprise Agency Limited (company limited by guarantee) without share capital under the control of Torbay Council has had no financial transactions and was dissolved in 2012/13.

Brighter Bay Limited (company limited by guarantee) has had no financial transactions and was dissolved in 2012/13.

SWERCOTS Ltd is the South West of England Regional Co-ordination of Trading Standards and represents the 15 South West Regional Authorities. In March 2012 the company resolved to be wound up voluntarily and a liquidator was appointed. As at 31st March 2013 the company had yet to be wound up and the Liquidator's progress report for 2012/13 stated that as at 15th March 2013 the assets held by the company prior to distribution to another body was £334,000.

South West Grid for Learning Trust is limited by guarantee and was incorporated on 9th October 2005 with the 15 South West Regional Authorities as members. The company objectives are the advancement of education as a solely charitable purpose by any means relating to the effective use of information and communication technologies for the benefit of the public. There are no transactions/liabilities associated with Torbay Council's membership other than the nominal initial one-off fee. For financial reporting this relationship has been treated as an investment.

Torbay Town Centres Limited. In 2008/09 the Council with representatives from local businesses formed this company to support the process for establishing Business Improvement Districts (BID) in the Torbay area. The Council collects the BID levy on behalf of the Torquay BID, the Paignton BID and, from 2012/13, the St Marychurch and Babbacombe BID on an agency basis. The value of the levy collected by the Council and paid to the company in 2012/13 was £0.4 million. (2011/12 £0.4million)

Riviera International Conference Centre. The Council has a maximum voting right of 19.99% on the board of the Riviera International Conference Centre Ltd, in addition the Council provides a peppercorn lease for the centre and an annual grant – 2012/13 £0.6 million (2011/12 £0.9 million).

Trust Funds

The Council acts as a Trustee for a number of funds. These balances do not form part of the Council's accounts. The value of these funds as at 31st March 2013 was £30,000 (£43,000 2011/12). Of this balance £24,000 is held within the Council's bank account with the balance of £6,000 relating to the (civic) Mayor of Torbay's charity fund held in a separate bank account.

Central Government

Central government (Her Majesty's Government for the United Kingdom of Britain and Northern Ireland) has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Significant grants received from government departments are set out in Note 41.

Members

Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in Note 37. Members have not disclosed any material transactions with related parties. The Members' Record of Interests and Register of Gifts & Hospitality for each Member are available on the Council's website.
http://www.torbay.gov.uk/DemocraticServices/mgMemberIndex.aspx?bcr=1

Officers

Officers complete a register of interests and the Council maintains a Register of Gifts & Hospitality for officers. During 2012/13 where officers received hospitality and prizes (over the value of £25) in the course of their employment this was declared in the Register. Officers have not disclosed any material transactions with related parties.

Other Public Bodies [subject to common control by central government]

Torbay and Southern Devon Health and Care NHS Trust

In December 2005 the Council entered a "partnership agreement" with Torbay Care Trust, (formerly Torbay Primary Care Trust) for the provision of adult care services formally operated by the Council. The Council remains ultimately responsible for adult social care.

Torbay Care Trust, under health reforms, from April 2012 split into two bodies: NHS Torbay and Torbay and Southern Devon Health and Care NHS Trust. The Council's partnership agreement for adult social care has transferred to the Trust.

The expenditure and income for the pooled budget for the partnership agreement is shown in the table below.

2011/12 £m	**Partnership Agreement Memorandum Account**	**2012/13 £m**
(57.2)	Health Funding	**(77.6)**
(43.1)	Torbay Council Funding	**(43.2)**
(100.3)	**Total Pooled Budget Funding**	**(120.8)**
30.0	Net Social Care Commissioned Expenditure	**30.6**
53.1	Pooled Provider Expenditure (NHS & Social Care)	**60.5**
16.6	Support Services	**17.1**
-	Health Commissioned Expenditure	**12.5**
99.7	**Total Pooled Budget Expenditure ****	**120.7**
(0.6)*	**(Surplus)/ Deficit**	**(0.1) ***

* As a result of the risk share arrangement between the Trust and the Council the surplus on the pooled budget for 2012/13 was retained by the Trust.

** Due to changes in the pooled budget in relation to Health services the expenditure categories are not directly comparable between the two financial years.

Pooled Budget

The Council has a pooled budget arrangement with NHS Torbay for the provision of a joint equipment store. Transactions and balances outstanding are detailed in Note 36.

Joint Committees

The Council is part of a number of joint committees where local authorities have joined together to provide a service. These are listed below:

Devon Audit Partnership

From April 2009 Torbay set up a Joint Committee with Devon County Council and Plymouth City Council for the provision of a shared internal audit service. The service is also able to provide audit services to other organisations.

Devon County is the "host" Council for the Joint Committee with all staff now employed by Devon County Council. Assets and Liabilities of the Joint Committee are split on an agreed basis (number of FTE's on inception of the Committee). Torbay's share is equal to 27%. Each partner is required to reflect their share of income and expenditure and any assets and liabilities within their accounts. Torbay's contribution to the partnership for 2012/13 was £0.4m (2011/12 £0.4m).

A summary of the Joint Committee's accounts and Torbay's share is shown in the table below:

2011/12 Torbay share	**Devon Audit Partnership**	**2012/13 Total**	**2012/13 Torbay share**
£m	Income & Expenditure Account:	**£m**	**£m**
(0.5)	Income	**(1.7)**	**(0.4)**
0.5	Expenditure	**1.6**	**0.4**
0	(Surplus)/Deficit transferred to/from reserve	**(0.1)**	**0**
£m	Balance Sheet:	**£m**	**£m**
0	Current Assets & Liabilities	**0.2**	**0**
0	Reserves	**(0.2)**	**0**
0	**Total balance sheet**	**0**	**0**
£000's		**£000's**	**£000's**
(12)	(Surplus)/Deficit for Year	**(55)**	**(15)**

PATROL – Parking and Traffic Regulations Outside London.

It is a statutory requirement for Councils undertaking civil parking enforcement to join this Joint Committee in order to access independent adjudication. The agreed primary objectives of the Joint Committee are the provision of:

a) a fair adjudication service for Appellants
b) consistency in access to adjudication;
c) a cost effective and equitable adjudication service for all Parking Authorities
d) to deal with a wide range of authorities with varying levels of demand for adjudication.

South West Devon Waste Disposal Partnership

Torbay Council, with Plymouth City Council and Devon County Council have begun working together and have jointly contracted a PFI project for an Energy from Waste Plant (based in Plymouth) to dispose of residual waste collected by the three Councils. As part of the Joint Working Agreement between the three Councils the South West Devon Waste Partnership Joint Committee has been established to facilitate the procurement and subsequent operation and management of the facilities (by the selected contractor). The Plant is expected to be operational in 2014.

The expenditure associated with this project is being incurred by Plymouth City Council (as lead authority) and then allocated on an equal share basis to Torbay and Devon County Councils. This expenditure is reflected within the cost of services on the comprehensive income and expenditure statement.

43. Impairment Losses

Impairment losses and impairment reversals are charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. The impairment by asset class is shown within Note 12 reconciling the movement over the year in Property, Plant and Equipment.

During 2012/13, the Council has recognised an impairment loss of £2.1m in total (£15.4m 11/12).

44. Contingent Liabilities

Pension Guarantees

The Council has a number of contingent liabilities in relation to pension guarantees arising either from the externalisation of Council services or support to local organisations. For externalisations the Council has guaranteed to meet any pension related financial liabilities arising on staff prior to transfer.

These are listed in the table below:

Organisation	Relationship to Council
Torquay Museum	Grant funded
Economic Development Company	Subsidiary
English Riviera Tourism Company	Subsidiary
PLUSS	Associate
South West Grid for Learning	Linked public sector body
Careers South West	Associate
Torbay Coast & Countryside Trust	Grant funded
Torbay Catering Services	Contractor

Bank Guarantees

The Council provides the following bank guarantees for overdrafts and/or loans.

Organisation	Value of guarantee
PLUSS	£125,000
Torbay Coast & Countryside Trust	£975,000

Loans

The Council has provided the following loan or loan facility to the following organisations. These loans are included in the Council's debtor balances on the balance sheet as at 31st March 2013.

Value of loan 31/3/12	Organisation	Value of loan 31/3/13
£208,000	PLUSS	£189,000
£575,000 *	Torbay Economic Development Company	£575,000 *
£86,000	Academy Schools	£133,000
£23,000	Car Loans – staff	£10,000
£22,000	Babbacombe Cliff Railway	£19,000
£8,000	Housing Loans	£7,000

Note * loan facility not used as at 31st March 2013

<u>Remote Liabilities</u>

The Council is aware of a number of areas where claims have been made against the Council which could result in a financial payment. However the Council considers that any payment is unlikely and therefore has not recognised these claims as a liability.

The board of Municipal Mutual Insurance limited in 2012/13 concluded that it couldn't forecast a solvent "run off" of claims which has led to the scheme of arrangement being activated which exposes the Council to a share of the costs of any outstanding claims. The company's administrator has estimated that the levy for all Councils to be 15% of each Council's claims, which has been reflected in the Council's accounts as a provision. However this levy may increase in the future.

A group of property search companies are seeking to claim refunds of fees paid to the Council to access land charges data, however legal proceedings have not yet been issued. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

45. Termination Benefits and Exit Packages

In 2012/13 the Council continued, as part of the Council's budget reductions, the process to terminate the contracts of a number of employees and announced plans that would result in further terminations in 2013/14, incurring a cost of £1.5 million in relation to staff redundancy and strain costs.

The number of exit packages banded by the total cost of each exit package, split by compulsory redundancy and other departures, (such as voluntary redundancy or settlements), are detailed in the table below. The costs disclosed are redundancy and strain payments and relate to staff employed by the Council including Council schools.

Note: These are exit packages that were accounted for in the Council's comprehensive income and expenditure account in the relevant year i.e. on a "demonstrably committed" basis not a cash basis.

Number of Exit packages by band 2011/12				Value of Exit package	Number of Exit packages by band 2012/13			
Compulsory Redundancy		Other Departures			**Compulsory Redundancy**		**Other Departures**	
No. In Band	Total Cost £000's	No. In Band	Total Cost £000's		**No. In Band**	**Total Cost £000's**	**No. In Band**	**Total Cost £000's**
62	342	36	177	1,000-25,999	**28**	**214**	**19**	**155**
3	93	1	25	25,000-34,999	**7**	**207**	**4**	**106**
1	40	2	90	35,000-44,999	**1**	**41**	**2**	**96**
1	52	0	0	45,000-54,999	**0**	**0**	**0**	**0**
1	60	2	116	55,000-74,999	**1**	**70**	**1**	**65**
0	0	0	0	75,000-99,999	**0**	**0**	**1**	**81**
0	0	0	0	100,000-199,999	**1**	**100**	**1**	**132**
0	0	0	0	200,000-299,999	**1**	**209**	**0**	**0**
68	587	41	408		**39**	**841**	**28**	**635**

46 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council over their asset life, the expenditure results in an increase in the Capital Financing Requirement (CFR). This is a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the table below.

2011/12 £m		2012/13 £m
137.6	**Opening Capital Financing Requirement**	**137.1**
	Capital investment	
17.6	Property, Plant and Equipment	**12.6**
0.1	Intangible Assets	**0.1**
4.4	Revenue Expenditure Funded from Capital under Statute	**5.8**
	Sources of finance	
(1.3)	Capital receipts	**(0.7)**
(16.5)	Government grants and other contributions	**(13.2)**
	Sums set aside from revenue:	
(0.9)	• Direct revenue contributions	**(1.0)**
(3.9)	• MRP	**(5.0)**
137.1	**Closing Capital Financing Requirement**	**135.7**
	Explanation of movements in year	
1.7	Increase in underlying need to borrowing (supported by government financial assistance)	**0.5**
1.7	Increase in underlying need to borrowing (unsupported by government financial assistance)	**3.1**
(3.9)	Provision for repayment of borrowing (MRP)	**(5.0)**
(0.5)	Increase/(decrease) in Capital Financing Requirement	**(1.4)**

47. Leases

Council as Lessee

Operating Leases - Equipment

The Council, as lessee, does not have any material operating leases.

Operating Leases - Property

The Council has leases for a number of properties, primarily for office accommodation with typical lives of ten years. A number of leases have "break clauses" to enable early exit of the lease if required which will reduce future payments if enacted. The Council has enacted the break clauses on Roebuck House and part of Union House. Rent payments in 2012/13 totalled £0.4 million (£0.5m 2011/12).

The future minimum lease payments due under property leases in future years are:

31 March 2012 £m	Total payments due classified by year of expiry of lease term	31 March 2013 £m
0.4	Not later than one year	**0.2**
0.9	Later than one year and not later than five years	**0.4**
0.3	Later than five years	**0.2**
1.6		**0.8**

Finance Leases:

The Council, as lessee, does not have any material finance leases.

Council as Lessor

Operating Leases – Property:

The Council leases out property under operating leases for the provision of services, such as cafes and golf clubs and for economic development purposes to provide suitable affordable accommodation for local businesses.

Payments received in 2012/13 totalled £2.2 million (£2.5m 2011/12).

The future minimum property lease payments receivable in future years are:

31 March 2012 £m	Total payments due classified by year of expiry of lease term	31 March 2013 £m
2.3	Not later than one year	**2.4**
9.1	Later than one year and not later than five years	**9.4**
55.9	Later than five years	**57.3**
67.3		**69.1**

Finance Leases:

The Council, as lessor, does not have any material finance leases.

48. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2012/13, the Council paid £3.1 million (£4.1m 11/12) to Teachers' Pensions in respect of teachers' retirement benefits, representing 14% (14% 11/12) of pensionable pay. In 2012/13 the employers' contribution rate was 14.1% (14.1% 11/12) and no termination benefits were awarded. The continued conversion of schools to Academy status reduced the Council's pension payment in 2012/13 compared to 2011/12. There were no contributions remaining payable at the year-end. The payments for 2013/14 are estimated to be less due to more schools moving to be Academy schools.

49. Defined Benefit Pension Schemes

Participation in pension schemes

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

The Council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Devon County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Analysis of Results:

2012/13 was a more settled year in terms of variations between the years resulting in a small increase of £2m in the overall liability.

Transactions relating to post employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The movements in actuarial gains/losses are recognised in the Pension Reserve and Other Comprehensive Income and Expenditure section.

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

Post Employment Benefits	Local Government Pension Scheme £m	
Comprehensive Income and Expenditure Statement	**2011/12**	**2012/13**
Cost of Services:		
Current service cost	6.9	**8.0**
Past service costs	0	**0**
Settlements and curtailments	(0.9)	**(2.8)**
Financing and Investment Income and Expenditure		
Interest cost	14.7	**14.3**
Expected return on scheme assets	(12.3)	**(10.5)**
Total Charged to the Surplus or Deficit on the Provision of Services	8.4	**9.0**
Charged to Other Comprehensive Income and Expenditure		
Actuarial (gains) and losses	46.1	**0.8**
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	54.5	**9.8**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(8.4)	**(9.0)**
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	6.9	**7.4**
Retirement benefits payable to pensioners	0.6	**0.6**

Assets and liabilities in relation to post employment benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Liabilities: Local Government Pension Scheme	
	2011/12 £m	**2012/13 £m**
Opening balance at 1 April	(272.1)	**(319.4)**
Current service cost	(6.9)	**(8.0)**
Interest cost	(14.7)	**(14.2)**
Contributions by scheme participants	(2.3)	**(2.0)**
Actuarial gains and (losses)	(39.7)	**(14.6)**
Benefits paid	10.4	**10.6**
Past service costs	0	**0**
Curtailments	(1.0)	**(0.9)**
Settlements	6.3	**7.3**
Unfunded Pension payments	0.6	**0.6**
Closing balance at 31 March	(319.4)	**(340.6)**
Present Value of Unfunded Obligation included above	(8.6)	**(8.9)**

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme £m	
	2011/12	**2012/13**
Opening balance at 1 April	195.5	**195.9**
Expected return on scheme assets	12.3	**10.4**
Actuarial gains and (losses)	(6.3)	**13.8**
Employer contributions	7.5	**8.0**
Contributions by scheme participants	2.3	**2.0**
Benefits paid	(11.0)	**(11.3)**
Receipt/Payment of bulk transfer value	(4.4)	**(3.5)**
Closing balance at 31 March	195.9	**215.3**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £24.2m (2011/12: £6.1m).

Scheme History and experience gains and losses

The fair value of the fund and the actuarial experience of gains and losses on the Pensions Reserve in 2012/13 and the previous five years can be analysed into the following categories:

	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m
Present value of liabilities:					
Local Government Pension Scheme	(253.0)	(355.8)	(263.8)	(310.7)	**(331.7)**
Discretionary Benefits	(9.4)	(10.2)	(8.3)	(8.7)	**(8.9)**
Fair value of assets in the Local Government Pension Scheme	149.5	199.6	195.5	195.9	**215.3**
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(103.5)	(156.2)	(68.3)	(114.8)	**(116.4)**
Discretionary Benefits	(9.4)	(10.2)	(8.3)	(8.7)	**(8.9)**
Total	(112.9)	(166.4)	(76.6)	(123.5)	**(125.3)**
Experience of gains and (losses) on assets	(49.5)	40.4	(5.9)	(6.3)	**13.8**
Percentage experience on assets as % of total assets	(33.1%)	20.2%	(3.0%)	(3.2%)	**6.4%**
Experience gains and (losses) on liabilities	(1.0)	0.4	17.5	(0.1)	**(0.3)**
Percentage experience on liabilities as % of total liabilities	(0.3%)	0.1%	6.4%	0%	**(0.1%)**
Total	(50.5)	40.8	11.6	(6.4)	**(13.5)**
Cumulative Actuarial Gain/(Loss)	(39.7)	(85.9)	(24.4)	(70.4)	**(71.1)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £125 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet reducing the net worth of the Council to £75 million. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains stable:

- the deficit on the local government scheme will be made good by contributions over the remaining working life of employees (ie, before payments fall due), as assessed by the scheme actuary

- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2014 is £5.5 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £0.6 million.

Basis for estimating assets and liabilities

Mortality assumptions:	**2011/12**	**2012/13**
Longevity from age 65: retiring today		
Men	20.5 yrs	**20.6 yrs**
Women	24.5 yrs	**24.6 yrs**
Longevity from age 65: retiring in 20 years		
Men	22.5 yrs	**22.6 yrs**
Women	26.4 yrs	**26.5 yrs**
Rate of inflation (RPI)	3.3%	**3.4%**
Rate of Inflation (CPI)	2.5%	**2.6%**
Rate of increase in salaries	4.7%	**4.8%**
Rate of increase in pensions	2.5%	**2.6%**
Rate for discounting scheme liabilities	4.6%	**4.5%**
Take-up of option to convert annual pension into retirement lump sum	50%	**50%**

Note: Under the revised IAS19 standard applicable from 2013/14 onwards the expected return and interest cost is replaced by a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate.

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Devon County Council Fund are based on the last full valuation of the scheme as at 31st March 2010.

The principal assumptions used by the actuary have been:

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2012 %	31 March 2013 %
Equity investments	69	**61**
Gilts	18	**13**
Other Bonds	0	**0**
Property	6	**8**
Cash	6	**3**
Target Return Portfolio	1	**15**
	100	**100**

Contributions to Devon County Unfunded Discretionary Pension

The Council is responsible for a proportion of pension payments awarded by Devon County Council prior to 1st April 1998. It was agreed that the Council would make annual contributions to meet the cost of future payments made by Devon County Council. These amounts do not have sufficient characteristics of liabilities directly in respect of retirements benefits for which IAS19 retirement benefits apply. Therefore these amounts have been disclosed as amounts payable to Devon County Council as they fall due each year. In 2012/13 these amounted to £0.8 million (£0.8 million in 2011/12). It is estimated that, if IAS19 applied to these contributions, the total liabilities in relation to these pre 1998 enhancements at the liability at 31st March 2013 to be £84 million (2011/12: £85m), of which Torbay's share, based on Taxbase, would be £10 million (2011/12: £10m).

50. Summary of Significant Accounting Policies

1.1 Concepts and Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts (by the Accounts and Audit Regulations 2011). These are prepared in accordance with proper accounting practices and represent a "true and fair view" of the Council's financial position.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (The Code) and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS) and the IASB Conceptual Framework for the Preparation and Presentation of Financial Statements as interpreted by the Code, and adapted where necessary for local government circumstances.

1.2 Objectives of Financial Statements

For local authorities the objective of financial statements is to provide information about the authority's performance, financial position and cash flows that is useful to a wide range of users for assessing the stewardship of the authority's management and for making economic decisions.

Financial Performance Reflected by Accrual Accounting

The financial statements are prepared on an accruals basis (except for cash flow), the focus for which is the Council defining when assets and liabilities should be recognised.

Underlying Assumption

These accounts are prepared on a going concern basis, i.e the accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future. This means in particular that the income and expenditure accounts and balance sheet assume no intention to curtail significantly the scale of operation.

Qualitative Characteristics of Useful Financial Information

Accounts should possess the following fundamental qualitative characteristics:

Relevance – information only included that is capable of making a difference to decisions made by users

Materiality – when applied at an individual Council level, information is material where its omission could influence decisions made by users. Reporting immaterial items can interfere with decision making and excessive detail may obscure the relevant information.

Faithful Representation – the financial statements should faithfully represent the financial circumstances it purports to represent. To achieve this three characteristics of information apply:

Completeness – the accounts contain all information necessary for a user to understand.

Neutrality – the accounts are free from bias

Free from Error – the accounts have no errors or omissions in the description of the financial position – which does not require that the accounts are perfectly accurate.

To enhance the usefulness of information in the accounts the information should have the following characteristics: **Comparability, verifiability, timeliness and understandability.**

1.3 Accounting Policies

Accounting Policies are the principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are reflected in the financial statements. These include estimation techniques that have been used in applying the policies.

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

The accounting policies that are significant to the understanding of the Council's accounts are listed below:

1.4 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Where the exact amount of the sum is unknown an estimate will be made based on historical knowledge of the type of transaction and the value of similar payments. An exception is where there are regular bills, such as utilities and staff travel payments where, if not material, no accruals have been made as over a period of time the number of payments per year will even out. In addition where the exact value of a transaction or a number of transactions is not yet known estimates of the amounts due/owed have been made.

In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed. Where appropriate there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings, where material is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. This charge is based on an assessment of the impairment of its debt based on the uncollectability of its debt outstanding. The level of the provision depends on the type and age of debt outstanding. Internal transactions between different sections of the Council, including (Council) schools have been netted off so to have no impact on the Council's balance sheet.

1.5 Cash and Cash Equivalents

Cash is represented by cash in Council bank current accounts along with balances held by local payment schools and petty cash/imprest accounts. In practice cash reflects the balance as at 31st March per the "cash book" of its financial systems which reflect the position of the Council after transactions processed through the account have been cleared such as cheques and BACs payments.

Cash equivalents are short term cash investments that are held for the purpose of meeting short term cash commitments rather than for investment purposes. These represent monies held in money market funds (or equivalent) for cash flow purposes. All other cash holdings, such as fund manager holding, fixed term deposits and notice accounts, irrespective of the liquidity of the holding or the length of any fixed term are held for investment purposes and not for meeting short term cash commitments. The Council also uses highly liquid call accounts where an assessment will be made at year end to establish whether the holding at that date is held for short term cash flow or investment purposes.

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

1.6 Collection Fund

The Council is the billing authority for the Torbay area. This means that the Council, acting on an agency basis, is responsible for the collection of NNDR and Council tax and for the payment of those taxes to central government and the precepting bodies. The Council maintains a separate Collection Fund account for Council tax and NNDR transactions.

National Non Domestic rates (NNDR)

In collecting business rates the Council is acting as agent for central government. The Council then reflects the net value of NNDR collection as at 31st March – such as arrears, impairment, and receipts in advance as an accrual due from/to central government. From 1st April 2013, as part of the business rate retention scheme, the Council will act as principal as it will retain a 49% share of NNDR income with 1% due to Devon and Somerset Fire and 50% due to central government.

Council Tax

The Council only reflects in its balance sheet its own share of the net value of Council tax collection as at 31st March – such as arrears, impairment, and receipts in advance. The share is calculated on the value of Council's own precept as a percentage of the total Council tax precept from all precepting authorities in a year. The share relating to the other precepting bodies is an accrual due to/from the Devon and Somerset Fire and the Police and Crime Commissioner.

The Council reflects in its Comprehensive Income and Expenditure Account its Council tax income in year as the precept set for the year adjusted for the Council's actual surplus/deficit on the collection fund at year end plus any adjusted required for the previous year's surplus or deficit.

1.7 Exceptional Items

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

1.8 Prior period Adjustments and Changes in Accounting Policies and Estimates

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. For 2012/13 no changes in accounting polices were required.

1.9 Charges to Revenue for Non-Current Assets

Services including support services are debited with the following amounts to record the cost of holding non current assets during the year:

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

The Council is not required to raise council tax to fund depreciation, impairment losses or amortisations. However, it is required to make an annual contribution from revenue (Minimum Revenue Provision - MRP) towards the reduction in its overall borrowing requirement calculated on a prudent basis determined by the Council in accordance with statutory guidance.

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

Services using the Prudential Code to undertake Unsupported Borrowing will be charged interest and principal in their service accounts to recover the cost of the borrowing over an appropriate period on an equalised (annuity) payment basis. This will either be a direct charge to the service or a virement of budget. These internal (non-statutory) charges will be off-set within the relevant service revenue accounts in the Service Reporting presentation of the Comprehensive Income and Expenditure Account. If the charges to services create a significant surplus or shortfall compared to actual interest and Revenue Provision costs in a financial year the balance will be transferred to an Unsupported Borrowing Equalisation Reserve to meet future surpluses or shortfalls or an additional (voluntary) revenue provision will be made.

Annual contribution from revenue (Minimum Revenue Provision)

Provisions in the Local Government Act 2003 require authorities to set aside revenue resources for repayment of debt incurred as a result of funding capital expenditure. The minimum provision (Minimum Revenue Provision - MRP) is calculated in accordance with the relevant Capital Finance Regulations. In general terms the MRP is, as a minimum, 4% of the Council's underlying need to borrow represented by the Capital Financing Requirement, subject to all reductions allowed under the Regulations.

Contributions from services who have undertaken capital projects prior to April 2008 funded from Unsupported Borrowing using the Prudential Code are credited to the Revenue account to offset the increased MRP resulting from such borrowing. Any surplus or shortfall contributions compared to this increased MRP are currently transferred to or from the Unsupported Borrowing Equalisation Reserve.

The Local Council (Capital Finance and Accounting) (Amendment) Regulations. (SI 2007/573) changed the method of calculation from 2006/07. If the new calculation leads to a higher MRP than under previous rules, an adjustment can be made to ensure there is no penalty to the Council. The Council applies this option to negate the adverse effect on the Council of the new calculation.

The Local Council (Capital Finance and Accounting) (Amendment) Regulations. (SI 2008/414) supported by statutory guidance on the Minimum Revenue Provision further revised the method of calculation from 2008/09. The Council set a Policy for Revenue Provision that will charge 4% on all capital expenditure funded from borrowing supported by central government and will charge a prudent amount linked to asset life on an annuity basis to assets, once operational, funded from unsupported borrowing.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 supported by statutory guidance on the Minimum Revenue Provision further changed the method of calculation from 2009/10 in relation to PFI accounting. The Council has set a Policy for Revenue Provision that the value of Revenue provision due on the PFI scheme in a year is equal to the reduction of the long term liability due to the contractor in relation to the PFI scheme.

In 1998 after attaining Unitary status the Council agreed to pay a tax base share of Devon County Council's borrowing as at 31/3/98. On the 1st October 2010 this liability to Devon County Council was converted to an equivalent value of PWLB borrowing which is also reflected as a liability on the Council's balance sheet. The annual cost of this liability is now reflected in the Council's interest costs and in a budget to fund the repayment of the liability over the average life of the new PWLB borrowing.

1.10 Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months after the year end in which the employee renders the service. A liability is recognised at year end. They include such benefits as wages and salaries and paid annual leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave e.g. "flexi leave") earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. At year end this accrual is assessed as:

For staff with an annual leave entitlement this is based on a historic sample of a cross section of staff resulting in an average percentage of leave carried forward which is applied equally over all services with this type of employee.

For staff with a term time entitlement, such as teachers this is based on a CIPFA template for assessing the value of leave due as at year end including leave due until the start of the school's summer term.

The Council does not pay any bonuses or any other short term benefits either monetary or non monetary.

The Council does not pay any Long term employee benefit either monetary or non monetary.

The accrual is charged to Surplus or Deficit on the Provision of Services. There is a statutory override for this transaction to nullify the impact of this liability on the Council tax payer reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs with a corresponding entry in the Accumulated Absences Account.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis if employee leaves before then end of the current financial year, or as a provision if employee is due to leave in the following financial year, to services or shown as an exceptional cost if material in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. If there is uncertainty over the number of employees who will accept an offer of termination benefits the Council will disclose a contingent liability.

Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

- The Local Government Pensions Scheme, administered by Devon County Council.

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

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

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

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

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on an appropriate high quality corporate bond.

The Pension Fund's Actuary has stated that the pension figures, calculated under IAS 19, supplied for Torbay are consistent with the Code of Practice provided by CIPFA. Further detail is provided in the notes to the accounts in accordance with IAS 19.

The assets of Devon County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

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

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

- Current service cost - the increase in liabilities as a result service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees such as the transfer of staff to an alternative supplier - debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – any movement in year is an adjustment to the Pensions Reserve and reflected in other Comprehensive Income and Expenditure.
- Contributions paid to the Devon County Council Local Government pension scheme - cash paid as employer's contributions to the pension fund in settlement of liabilities

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

The overall amount to be met from Government grants and local taxation has remained unchanged after the impact of all these entries, but the Cost of Services on the Comprehensive Income and Expenditure Account in 2012/13 are lower after the replacement of employers' contributions by IAS 19 related costs. The net deficit on the Provision of Services is higher than it would otherwise have been.

The requirement to recognise the net pensions liability under IAS19 has reduced the reported net worth of the Council by 64%. (48% 2011/2012).

Discretionary Benefits

The Council does not now make any discretionary awards of retirement benefits in the event of early retirements.

Torbay Council in 1998 agreed to fund a tax base share of Devon County's enhanced pension payments (unfunded benefits). As this is a liability to Devon County Council and not to a pension fund these costs have not been treated as pension related and are charged to the Comprehensive Income and Expenditure Statement as the costs are incurred, therefore IAS 19 does not apply to these costs.

Any costs of discretionary awards by the Council in previous years are charged to the Comprehensive Income and Expenditure Statement as the costs are incurred – i.e when the benefits are paid to the pensioner.

1.11 Events After The Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events, if material, could be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events

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

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

1.12 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. (The interest due is shown on the balance sheet as short or long term depending on the timing of the expected cash flow of the interest payment). The exception is the stepped rate

LOBO loan the Council has with Barclays. This has been recognised at amortised cost and an effective interest rate calculated for the maximum duration of the loan. This effective interest rate is charged to the Comprehensive Income and Expenditure account.

Gains and losses on the repurchase or early settlement of borrowing (if any) are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables (i.e investments and loans) - assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets (i.e investments and cash equivalents) - assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables (investments and loans)

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available for Sale Assets - Investments

Available for sale assets, such as money market funds, are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principle:

- instruments with quoted market prices - the market price

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets.

Available for Sale Assets – Investment in Subsidiaries

The initial recognition of the Council's investment in its subsidiaries is at the nominal value of the shares held in the company subsequently adjusted for a fair value revaluation. In particular the fair value of the Council's investment in the Torbay Economic Development Company was taken to be the net equity of the company. Changes in value has been recognised in the '(Surplus)/Deficit on revaluation of available for sale financial assets' in the Comprehensive Income and Expenditure account. As at 31st March each year the investment value is adjusted to reflect the movement in the net equity of the company as a revaluation gain or loss, unless the loss falls below the nominal value of the shares when impairment will be recognised.

Assets carried at Fair Value through Profit and Loss

The Council's holding with its funding manager has been designated as a Financial Asset at Fair Value through Profit and Loss. The definition is met as the Council's holding is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit making as the Fund Manger is a set a benchmark target to achieve for each year.

Any changes in the fair value of the asset are reflected in the carrying value of the asset and the changes in year credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Instruments Entered Into Before 1 April 2006

The Council entered into a financial guarantee with a bank in relation to the Torbay Coast and Countryside Trust that is required to be accounted for as financial instruments but has a statutory override (see below) to negate the impact on council taxpayers. This guarantee is reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

Pension guarantees are deemed to be outside the scope of financial instruments and have not been recognised. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed.

Financial Instruments – Statutory Overrides

Statutory Instruments have been introduced to negate the impact on Council Tax of the various changes to the Council's accounts as a result of implementing the Financial Reporting Standards for financial instruments. The Council has used the following provision:

- SI 2008 414 – provision to mitigate the impact of Financial Guarantees up to 9th November 2007

Financial Instruments – interest due at year end

On both investments and borrowings any interest due either to or from the Council is added to the value of the asset or liability and then classified as short or long term depending on the timing of the expected cash flow of the interest payment.

1.13 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions, such as developers' contributions under section 106 agreements, and donations (if any) are recognised on the balance sheet as due to the Council when there is reasonable assurance that:

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. An obligation to return funds does not arise until it is expected that the condition will be breached.

The recognition of grants and contributions is on an accruals basis. Developer contributions under S106 agreements are presumed to have conditions unless clear evidence to the contrary that would require repayment if not met and are recognised as a receipt in advance.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (receipts in advance). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions including grants for REFCUS) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants such as Revenue Support Grant and all capital grants) in the Comprehensive Income and Expenditure Statement. Grants relating to future expenditure or future financial years will be recognised in the year they are received subject to any conditions as above.

Where a grant or contribution is recognised in the Income and Expenditure account but at the balance sheet date that grant could be used for either revenue (i.e REFCUS) or capital expenditure it is treated as a revenue grant credited to the appropriate service in the net cost of services.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement or capital grants relating to expenditure classified as REFCUS are treated for financial reporting as a revenue grant and reported as income within the relevant service, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants (or Contributions) Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants (or Contributions) Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

All grants and contributions are subject to a de minimis, where if the value of the grant or contribution is less than £50,000 the income will be recognised in the Comprehensive Income and Expenditure Account immediately.

If a revenue grant or contribution remains unused at then end of a financial year then the funding will be transferred into an earmarked reserve.

1.14 Business Improvement Districts

Business Improvement District (BID) schemes have been established in the Torquay, Paignton and in 2012/13 in the Babbacombe and St Marychurch area. The schemes are funded by a BID levy paid by non-domestic ratepayers and managed by Torbay Town Centres Company Limited. The Council acts as an agent under the scheme and charges for and collects the levy on behalf of the company. The only costs in relation to this scheme in the Comprehensive Income & Expenditure Statement are any costs and income associated with the administration costs of the collection of the levy.

1.15 Intangible Assets

Subject to a de minimis of £50,000, expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Subsequent expenditure is charged to Services in the year it is incurred.

Subject to a de minimis of £50,000 internally generated assets, if any, are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of the Council websites is not capitalised as the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement (between 3 -10 years depending on the asset). An asset is tested for impairment whenever there is indication that the asset might be impaired - any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

1.16 Heritage Assets

Subject to a de minimis of £50,000, expenditure on, or the value of donated heritage asserts, are capitalised where the Council has information on the cost or value of the heritage asset. Within one location a number of articles have been grouped into a single collection which is accounted for as an individual Heritage asset.

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of heritage. Heritage assets include historical buildings, archaeological sites, civic regalia, museum and gallery collections and works of art.

Heritage assets, if material, located within a community asset (for example, an historic building within a park) are accounted for separately from the community asset.

Operational heritage assets (i.e. those that, in addition to being held for their heritage characteristics, are also used by the Council for other activities or to provide other services) are accounted for as operational assets, and are valued in the same way as other assets of that general type (buildings, for example).

Heritage assets (other than operational heritage assets) are measured at valuation in accordance with FRS 30 i.e valuations may be made by any method that is appropriate and relevant such as insurance valuations. Where the Council has used insurance valuations this is the value insured which includes rebuild costs and is subject to indexation. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets are measured at historical cost.

By their nature heritage assets are being preserved for the benefit of future generations therefore the estimated life of these assets are likely to have indefinite lives or in excess of 99 years.

Therefore depreciation is not required on heritage assets which have indefinite lives or where the asset life is in excess of 99 years as the depreciation value per annum will not be material. However, if applicable, individual depreciation rates will be set in relation to individual assets.

An asset is tested for impairment whenever there is indication that the asset might be impaired for example, where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity.

- any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on heritage assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Where capital expenditure has occurred and a new valuation has not been issued, the expenditure in year is deemed to have increased the current value of the asset by a “pound for pound” amount either added to the value of the asset or as an asset under construction. Where expenditure is assessed as not adding value to the asset, the corresponding value will be written off as impairment.

1.17 Interests in Companies and other Entities

The Council accounts for it investments in its subsidiary companies at fair value. This is taken to be the net equity of the company at each financial year end. The fair value is recognised as a long term investment with the balance held in the Financial Instruments available for sale reserve.

Any movement in fair value will be treated as a revaluation gain or loss unless the value falls below the initial recognition value (nominal value of the shares) when an impairment will be recognised. If the net equity of a subsidiary is negative the fair value is then recognised as nil.

The Council recognises the value of its other interests in companies, such as associates, at cost.

Companies

The Council has material interests in companies and other entities that have the nature of subsidiaries and associates. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost or fair value. For 2012/13 the value of the Council's interests in these companies is considered to be sufficiently material to require the production of group accounts for the Council.

The Council wholly owns Torbay Economic Development Agency, Oldway Management Company and English Riviera Tourism Company and has representation and/or interests in SWERCOTS Ltd, SWGFL, Careers South West, Torbay Town Centres Company Limited, the PLUSS Organisation and TOR2.

Details of the companies that the Council has an interest in are listed in the Related Parties note to these accounts and, if material, in its Group Accounts. Further details on some of these interests are summarised below:

TOR2

This private company, a joint venture between Torbay Council and May Gurney, started trading on 19th July 2010 taking over a number of services and staff previously undertaken by the Council. The Council owns 19.99% of the shares with May Gurney owning 80.01%. This investment is recognised at historic cost (£19.99) as a long term investment on the Council's balance sheet. May Gurney plc, as parent company, has provided a guarantee to cover any liabilities for TOR2 ltd. Depending on TOR2's trading there is profit share payable to the two owners but not applicable in 2011/12. The assets owned by the Council and licensed to TOR2 remain as Council assets on the balance sheet, while any assets purchased by TOR2 are recognised on TOR2's balance sheet as the Council's contract with TOR2 does not specify the use of specific assets and TOR2 is expected to use their assets on other contracts. The Council in 2010/11 funded the purchase of a bond to cover any future pension liabilities in relation to the council staff that transferred to the new company and the Council will fund TOR2 for any employer contributions in excess of the rate applicable on date of transfer. These costs will be recognised in the year that they arise.

Torbay and South Devon Health and Care NHS Trust

The Council entered a "partnership agreement" with Torbay Care Trust (formerly Torbay Primary Care Trust) on the 1st December 2005. From April 2013 the Care Trust was split into a Clinical Commissioning Group (CCG) and the Torbay and South Devon Health and Care NHS Trust with the Council's agreement continuing with the latter.

This partnership was to enable the Care Trust to provide Adult Care Services delegated by the Council. Council staff working in Adult Social Care transferred employment to the Care Trust. The Council however remains accountable for adult social care. In 2012/13 any under/overspends on the adult social care function provided by the Trust is the Council's responsibility subject to an agreed calculation of the split of any overspend between the Council and the Trust.

Section 76 of the NHS Act 2006 permits Primary Care Trusts to exercise various local Council functions, and for local authorities to exercise various Primary Care Trust functions. The Torbay

Primary Care Trust was re designated as a Care Trust under the Health and Social Care Act 2001. The Trust remains within the Department of Health accounting boundary. The Council and the Trust are accounting for the partnership on the basis that the Council is funding the Trust to undertake delegated activities. The Trust will continue to provide the former Primary Care Trust activities. The Trust will account for income and expenditure on the Adult Social Care functions in the appropriate service category and will account for the funding received for the Council as “providing” income. The Council will show the funding paid to the Trust for providing the delegated functions within its Income and Expenditure Account. The partnership will also be part of the related parties note.

As the Council is accountable for social care, government grants are accounted for within the Council’s Income and Expenditure Account and then passed to the Trust as part of the overall funding. In addition the Council continues to support a number of functions on behalf of the Trust, in particular, a debtor’s function for charges for social care. In 2012/13 the Council received funds from the CCG to be used to support social care. This has been treated as income in the Cost of Services.

In addition the Council is the lead body for a pooled budget with NHS Torbay for the Joint Equipment Store.

Torbay Economic Development Company

The Economic Development Company, a company limited by shares, is 100% owned by the Council and started trading in May 2011. The Council transferred a number of properties and allocated a number of long term leases (125 years) to the company at either nil consideration or a peppercorn rent. These assets were treated as a disposal in the Council’s accounts. The net equity of the company is taken to be the fair value of the Council’s investment in the company.

1.18 Inventories and Long Term Contracts

The Council has valued all inventories at the lower of cost or current replacement cost subject to a general de minimis for recognition of £50,000. This valuation is assumed to be broadly equal to an average cost valuation of the inventory.

In relation to the Joint Equipment Store, managed as a pooled budget with NHS Torbay, due to the nature of the purchases the costs are directly charged to revenue as they are incurred.

1.19 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. The Council has assumed that all properties have an operational purpose such as tourism or regeneration unless it is clear that there is no direct service benefit and the properties are used solely to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset which could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Any net increase in value prior to the asset being classified as an investment property is held and ‘frozen’ in the Revaluation Reserve until the asset is disposed or reclassified.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. Any gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds greater than £25,000, the Capital Receipts Reserve.

1.20 Jointly Controlled Operations

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

Devon Audit Partnership

This is a Joint Committee established by Torbay, Plymouth and Devon County Council for the provision of internal audit services to the three Councils. The three Councils recognise in their accounts their share of the partnerships' income, expenditure, assets and liabilities.

PATROL – Parking and Traffic Regulations Outside London

It is a statutory requirement for Councils undertaking civil parking enforcement to join this Joint Committee in order to access independent adjudication.

South West Devon Waste Partnership

Torbay Council, with Plymouth City Council and Devon County Council have begin working together and have jointly contracted for a PFI project for an Energy from Waste Plant (based in Plymouth) to dispose of residual waste collected by the three Councils. As part of the Joint Working Agreement between the three Councils the South West Devon Waste Partnership Joint Committee has been established to facilitate the procurement and subsequent operation and management of the facilities (by the selected contractor). The Plant is expected to be operational in 2014.

The expenditure associated with this project is being incurred by Plymouth City Council (as lead authority) and then allocated on an equal share basis to Torbay and Devon County Councils. This expenditure is reflected within the cost of services on the comprehensive income and expenditure statement.

1.21 Leases

The Council's leases relate mainly to property where the Council both leases in and leases out property.

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

The Council has considered all its leases for possible classification as finance or operating leases. The Council presumes a lease to be an operating lease unless there is evidence to the contrary and it is material to the accounts that a lease is classified as a finance lease. The Council in assessing the existence and materiality of a finance lease considered the following issues:

- "Footprint" of building is less than 5% of total land area
- Lease term is greater than 75% of asset life
- Value of gross value of asset is greater then £0.1m
- Value of annual rent is greater then £10,000
- Minimum Lease payment calculation will use PWLB rates at inception of lease

- Minimum Lease payment is 75% of current asset value

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. The land value is presumed to be 20% of the total value of the asset unless there is evidence to the contrary.

After the assessment the Council does not have any material finance leases either as lessee or lessor.

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

All lease transactions, such as recognition, smoothing of operating lease payments/receipts are subject to a de minimis of £50,000 per annum.

Where an asset has a long term lease over 99 years it will be recognised in the Council's accounts as a disposal and written out of non current assets and reflected as either a capital receipt, if the tenant has paid a lump sum, or as a long term debtor if the tenant is making ongoing annual payments.

The Council as Lessee

Operating Leases

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

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant service line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life-of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Where material Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Crematorium

In 2008/09 the Council entered into a 25 year contract with Westerleigh Crematorium Services Ltd for the operation of its crematorium. The contractor pays a fixed annual sum for this contract however the contract specifies that the contractor is to construct a replacement cremator at the end of the contract that will be passed back to Council ownership at the end of the contract period. The Council has recognised this future asset as a long term debtor which is increased each year by notional rent credits which are sufficient over the life of the lease to equal the estimated value of the replacement cremator. At the end of the contract when the asset transfer the debtor will be reversed and a non current asset recognised on the Council balance sheet.

1.22 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core. - costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs -the cost of discretionary benefits awarded to employees retiring early and, if applicable, impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in Service Reporting Code of Practice 2012/13, and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

The majority of the costs of management and administration and central services have been charged to services based on an appropriate (fair) basis. E.g. accommodation on floor area, personnel on head count.

The Council is required to present the service expenditure analysis in accordance with the CIPFA Service Reporting Code of Practice 2012/13. This analysis is in some service areas different to the Council's internal budgeting and monitoring arrangements. Any costs of redundancy payments arising from the budget setting process have been accounted for, and funded, centrally, have been included in Non Distributed Costs.

1.23 Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred.

A general de-minimis limit of £25,000 is applied to recognition of expenditure on Property, Plant and Equipment. Exceptions to the de-minimis limit are made for projects or individual purchases under £25,000 where there are specific service requirements to do so e.g. school minor improvement works which are funded under Special Government Initiatives and fleet vehicle purchases.

The Council's recognition (or otherwise) of the different types of school assets are as follows:

Community Schools:

The land and buildings are owned by the Council who provide a service from these properties. These assets are recognised as Council assets. If a community school becomes an Academy school the asset is treated as a disposal at nil value on the relevant date. The Council has one community school where the land and building is leased under a 99 year lease. This is accounted for as a Council asset.

Academy Schools:

The land and buildings for the three academy schools within Torbay are owned by the charitable trusts that operate these schools. These schools are funded directly from central government and are not recognised as Council assets. For any school converting to Academy status during 2012/13 the date of disposal for accounting purposes is the 1st April 2012. Academy schools converting are de recognised in the year the transfer happens and not when the decision to transfer is made by the school.

Foundation Schools:

The land and buildings are vested in the governing bodies of the schools. The governing bodies control admission to the schools and employ all the staff. These are not recognised as Council assets. This includes the Council's one foundation school which is also a PFI funded school.

Voluntary Aided Schools:

The land and buildings are owned by the charitable trusts that operate these schools. The charitable trusts control admission to the schools and employ all the staff. These are not recognised as Council assets.

Voluntary Controlled Schools:

The land and buildings are owned by the charitable trusts that operate these schools. The Council controls admission to the schools and employs all the staff. Although the Council has no benefit to any residual value of the asset as the Council controls the service provided these are recognised as Council assets.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price

- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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

List of asset categories & their definitions

The Property, Plant & Equipment category on the balance sheet is comprised of a number of sub categories:

Vehicles, Plant & Equipment – Assets used for operational purposes

Community Assets - assets which the Council intends to hold in perpetuity, which may have an indeterminate life and may have restrictions on disposal.

Surplus Assets – assets which are surplus to service needs but do not meet the criteria to be classified as Assets Held for Sale.

Infrastructure Assets – assets which form the underlying framework of the physical environment and by their nature cannot be sold. They include coastal defence and drainage systems and transport infrastructure assets. Transport infrastructure assets form the underlying transport framework of the physical environment and by their nature cannot be sold. They include highways, footways, and associated assets.

Assets under construction (Work in Progress) - where capital projects are incomplete and the assets under construction are not yet operational at the year end.

Other Land and Buildings – Assets used for operational purposes, including any operational heritage assets.

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

- Vehicles, plant & equipment - lower of net current replacement cost or net realisable value in existing use. For non-specialised operational assets, net current replacement cost is calculated on the basis of Existing Use Value (EUV); for specialised operational assets, net current replacement cost is calculated on the basis of Depreciated Replacement Cost (DRC). Since these assets often have relatively short useful lives and/or low individual values, Depreciated historical cost is used as a proxy for fair value.

- Community Assets – depreciated historical cost and, as with Infrastructure Assets, generally their value is increased as capital expenditure is incurred.

- Surplus Assets (if any) - Lower of net current replacement cost or net realisable value. Net current replacement cost is calculated on the basis of Market Value. Fair value as measured by Existing Use Value (EUV) but since, as Surplus assets, they will not have an existing use the valuation will be based on its use before it was decommissioned.

- Transport Infrastructure and Other Infrastructure – depreciated historical cost. Their value is usually increased as expenditure is incurred unless the asset is not available for use, when it will be treated as an Asset under Construction. Infrastructure assets transferred from Devon County Council upon Local Government re-organisation in 1998 are held at the value disaggregated by the County Council using tax base, subject to depreciation.

- Assets under construction (Work in Progress) – where capital projects are incomplete and the assets under construction are not yet operational at the year end, the added value of any significant works in progress is assessed by the Council's valuer pending the issue of a revaluation certificate upon completion of the works or expenditure to date is used in proxy. For assets valued at historical cost (infrastructure and community assets) costs are disclosed under operational fixed assets as they are incurred. The value of assets under construction from a prior year where a new valuation is issued, to the extent that valuation is in excess of the capital expenditure, is cleared to the Revaluation Reserve.

- all other assets (primarily land and buildings) - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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

Where an asset is recategorised during a financial year it will be revalued according the measurement relevant to that category of asset. If material the asset will be revalued in year, otherwise the asset will be revalued as part of the rolling 5 year programme.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. All asset valuations are carried out in accordance with the Statements of Asset Valuation Practices and Guidance notes published by RICS and CIPFA. The management of property valuations is undertaken by Chris Bouchard A.R.I.C.S. who is an employee of Torbay Economic Development Company. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Assets where a material change (e.g. capital expenditure on improvement or enhancement) occurs during the year are revalued as at the time of the change. Where there is a revaluation in year and capital expenditure has occurred in the year, the revaluation is assumed to have reflected the value of the expenditure in year.

Where a fixed asset is included in the balance sheet at current value, the difference between the amount at which the asset was included in the balance sheet immediately prior to the latest revaluation and the new value is credited or debited to the Revaluation Reserve.

Where capital expenditure has occurred and a new valuation certificate has not been issued, the expenditure in year is deemed to have increased the current value of the asset by a "pound for pound" amount. Where expenditure is assessed as not adding value to the asset, the corresponding value will be written off as impairment.

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

Downward Revaluations (Impairment)

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Where capital expenditure in year has not added value to an asset the expenditure is written off to the Income and Expenditure account as impairment.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives as estimated by the Council's Valuer, making an allowance for any residual value. Annual depreciation is calculated based upon the opening Balance Sheet value for each asset unless a material change has occurred during the financial year, in which case a pro-rata adjustment is made.

An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- buildings - straight-line allocation over the useful life of the property as estimated by the valuer

- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet usually over periods between 3 to 10 years depending on the nature of the asset. Straight – line allocation over the expected useful life of the asset.

- infrastructure - straight-line allocation as appropriate, typically over 40 years to 60 years and 20 years for Transport infrastructure.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council only assess an asset for componentisation (beyond the standard land and buildings split) if the asset has a gross value of more than £1m and the value of a type of component within an asset has a value in excess of £0.4m. Where appropriate for assets of a similar operational purpose, (such as schools), standard percentage splits over significant components will be used. Where, if material, expenditure in year is incurred on a replacement component and no revaluation of the asset has occurred the value of the old component (adjusted for depreciation to date) will be removed.

The Council has determined the following components:

Land

Building/Structure

Plant & Machinery

Furniture & Equipment

Infrastructure

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

1.24 Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

To be an asset held for sale the Council is actively taking actions to dispose of the site – such as the active marketing of the site. If the asset sale is expected within 12 months it is classified as a current asset and of sale not expected within 12 months it is held within non current assets.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell if material. Where there is a subsequent decrease in fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Any changes in criteria apply from the next balance sheet date therefore no restatement of opening balances is required.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any net increase in value prior to the asset being classified as an Assets Held for Sale is held and 'frozen' in the Revaluation Reserve until the asset is disposed or reclassified.

Amounts received for a disposal in excess off £10,000 are categorised as capital receipts. Receipts below the de-minimis level of £10,000 (with reference to the Capital Finance Regulations 2003) are not recognised as capital receipts and are retained in the Comprehensive Income & Expenditure Account. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow.

The Council could also receive capital receipts not directly related to the disposal of an asset. These include the Council's share of Right to Buy Receipts arising from the Council's housing stock which was transferred to Riviera Housing Trust in 2001. These are regarded as deferred receipts arising from the original disposal and are accounted for as a refinement of the estimated gain/loss made on the original disposal, and hence posted as gains/losses in the Income and Expenditure Account of the year of receipt.

Other capital receipts, not directly or indirectly linked to an asset such as repayment of renovation grants will be credited to the relevant service and then reversed in the Statement of Movement on the General Fund Balance.

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

Costs of disposal are not charged to gains/losses on disposal unless material. The Council has taken the option allowed by legislation to charge costs of disposal up to 4% of the value of a capital receipt and this is reflected in the Council's Capital Investment Plan. This option was not used in 2012/13.

1.25 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment and depreciated in the same way as property, plant and equipment owned by the Council.

Westlands and Homelands Schools – Private Finance Initiative.

The Council entered into a 26 year contract with a private sector partner, for the provision of serviced facilities at Westlands Secondary and Homelands Primary Schools in Torquay. The Project Agreement was signed on 31st March 2000 with Torbay School Services Ltd. The contract became effective on 10th May 2000 at which time both parties agreed that the conditions precedent had been satisfied. The contract is a "design, build, finance and operate" PFI contract.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For Westlands and Homelands Schools, the liability was written down by an initial capital contribution of £16m. The asset relating to one of the PFI schools, Westlands, which is a foundation school, is not recognised although the long term liability is.

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

- fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost - an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator. In addition the Council makes an annual revenue provision to the Capital Adjustment Account that is equal to the annual reduction in the liability to the contractor and correspondingly reduces the Council's Capital Financing Requirement.

Any lifecycle costs incurred by the contractor are assumed to be revenue in nature in maintaining the existing value of the asset. Any variations of a capital nature requested and funded by the school are treated as capital expenditure and capital resources outside the PFI contract.

The Council is in receipt of Government support for part of the cost of the scheme. The Council set up a sinking fund reserve to set aside some of the grant proceeds so that the scheme can be funded evenly from Government support over its operational life.

Energy From Waste Plant – Private Finance Initiative

Torbay, in partnership with Plymouth and Devon County Councils has entered into a PFI contract with MVV Environment for the construction and operation of an Energy From Waste Plant for the disposal of domestic waste. The Plant is due to be operational from 2014. At this stage it s unclear whether the Council's control over the asset will require its share of the plant to be recognised on its balance sheet.

1.26 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council maybe involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

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

Carbon Allowances

The cost of the Council's consumption of utilities which leads to a cost under the use of Carbon Allowances scheme is accounted for as a provision in Cost of Services in the Comprehensive Income and Expenditure Account in the year that the consumption relates. Any allowances held but not applied are held as current intangible assets.

Contingent Liabilities

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

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but, if applicable, are disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.27 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. The purpose of each of the Council's reserves is explained within the notes to the core financial statements.

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

1.28 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a Council non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year (e.g. payments to third parties such as Private Sector Renovation Grants or spend on Foundation schools). Any grants or contributions received used to fund this expenditure, or expected to be used to fund REFCUS in the future, will also be treated as a revenue income. Where a grant has been received and as at year end it is not confirmed whether the grant will be spent on capital or REFCUS expenditure the Council has treated this as revenue grant. The grant will then, via the Movement in Reserves Statement be transferred to either the Capital Adjustment Account if expenditure has been incurred or to the capital grants unapplied reserve if expenditure has not yet been incurred.

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Although REFCUS, for financial reporting is treated as revenue expenditure, it is still, by statue, capital expenditure therefore the costs and sources of funding for REFCUS will appear within the notes for capital expenditure and financing.

1.29 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

COLLECTION FUND SUMMARY ACCOUNT 2012/13

This account reflects the statutory requirements for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

2011/12			**2012/13**	
£ m	£ m		**£ m**	**£ m**
		Income		
(59.2)		Council Tax Receivable	(59.6)	
(15.7)		Transfers from General Fund - Council Tax Benefits	(15.6)	
	(74.9)			**(75.2)**
	(35.1)	Income from business ratepayers (NNDR)		**(35.5)**
	(110.0)	Total Income		**(110.7)**
		Expenditure		
		Precepts and Demands:-		
7.6		Devon & Cornwall Police Authority	7.9	
3.5		Devon & Somerset Fire and Rescue Authority	3.6	
61.8	**72.9**	Torbay Council's own Demand (including Brixham Town Council)	62.0	**73.5**
	1.4	*Distribution of previous years estimated collection fund surplus. Note D*		**2.2**
		National Non-domestic Rates (NNDR):-		
34.5		Payments to NNDR Pool	34.8	
0.2	**34.7**	Cost of Collection Allowance	0.2	**35.0**
		Bad and Doubtful Debts/Appeals:-		
		Council tax		
0.3		Write Offs for uncollectable amounts	0.4	
(0.7)	**(0.4)**	Allowance for Impairment	0	**0.4**
		NNDR		
0.4		Write Offs for uncollectable amounts	0.5	
0.0	**0.4**	Allowance for Impairment	0	**0.5**
	109.0	Total Expenditure		**111.6**
	(1.0)	(Surplus)/Deficit for year		**0.9**

£m	Movement of Fund Balance	£m
(2.1)	Balance brought forward as at 1st April	**(3.1)**
(1.0)	Surplus for the year	**0.9**
(3.1)	Balance carried forward as at 31st March	**(2.2)**
(0.5)	Balance attributable to major precepting bodies. *Note E.*	**(0.3)**
(2.6)	Balance attributable to Torbay Council. *Note E.*	***(1.9)***

Note: Brixham Town Council, a local precepting authority, 'precepts' on Torbay Council as a billing authority to fund its activities, the precept for 2012/13 was £0.193m (£0.186m in 2011/12) and is received from council taxpayers in the town council's area. This precept is included in Torbay Council's demand on the collection fund.

NOTES TO THE COLLECTION FUND SUMMARY ACCOUNT

These notes represent the statutory requirement for a billing Council to maintain a separate Collection Fund. The accounts are consolidated with the Council's main accounts.

A) Council Tax Base 2012/13

For Council tax purposes the number of domestic properties in each band converted to a Band D equivalent for **2012/13** was as follows:

Valuation Band	Ratio to Band D	Amount payable by all council tax payers			Additional amount payable by council tax payers resident in the Brixham Town Council area		
		No Dwellings in valuation list	No of Dwellings Band D Equivalent	Average Council Tax Per Dwelling £	No Dwellings in valuation list	No of Dwellings Band D Equivalent	Average Council Tax Per Dwelling £
A	6/9	13,334	**7,021**	996.55	1,412	**741**	19.31
B	7/9	17,046	**11,488**	1,162.63	2,245	**1,524**	22.54
C	8/9	16,305	**12,900**	1,328.73	2,474	**1,968**	25.75
D	1	9,744	**8,862**	1,494.82	1,504	**1,374**	28.97
E	11/9	4,951	**5,562**	1,827.01	642	**745**	35.40
F	13/9	2,268	**3,008**	2,159.18	311	**407**	41.85
G	15/9	1,210	**1,789**	2,491.37	92	**143**	48.28
H	2	122	**169**	2,989.64	6	**5**	57.94
TOTAL		64,980	**50,799**		8,686	**6,907**	
Less Allowance for Non Collection @ 3.5% (3.5% 2011/12)			**(1,778)**			**(242)**	
TAX BASE 2012/13			**49,021**			**6,665**	

The number of dwellings Band D equivalent for 2012/13 is required for the setting of the Council Tax. It is calculated prior to the start of the financial year by using the number of dwellings on the valuation list adjusted to set the number of chargeable dwellings per band. This is then adjusted for an appropriate level of reduced assessments (discounts) prior to the number of dwellings in each band being put in a ratio compared to Band D. For further details on this please see "Council Tax Base 2012/13" report from the Council meeting in December 2011.

B) Council Tax Income 2012/13

Precepts and Demands:

The following Authorities made a demand on the Collection Fund in 2012/13.

2011/12		**2012/13**
£ m		**£ m**
61.8	Torbay Council (see note below)	**62.0**
7.6	Devon and Cornwall Police Authority	**7.9**
3.5	Devon & Somerset Fire & Rescue Authority	**3.6**
72.9	**Total Demands on Collection Fund 2012/13**	**73.5**
	Divided by Council Tax Base:-	
48,820.6	Torbay Council Tax Base	49,021.42
6,623.86	Brixham Town Council Tax Base	6,664.97
1,489.54	Band D Council Tax (excluding Brixham Town Council precept)	1,494.82
1,517.69	Band D Council Tax (including Brixham Town Council precept)	1,523.79

Note: Brixham Town Council's precept is included in Torbay Council's demand on the collection fund.

The income credited to the Collection Fund in 2012/13 can be analysed as follows.

2011/12		2012/13
£ m		£ m
86.4	Gross Council Tax Payable for Year	86.7
(11.5)	Reduced Assessments (discounts)	(11.5)
(74.9)	**Actual Income from Council tax**	**(75.2)**
(15.7)	Less Council Tax Benefit	(15.6)
(59.2)	**Total Council tax Income 2012/13**	**(59.6)**

The difference of £1.8 million between the actual Council Tax income (£75.2m) and the estimated income (£73.4m) is due to changes during the year in the Council Tax Base and collection rates. These changes include the number of eligible properties, discounts and the actual and estimated tax collection rate.

C) Income from Business Rates

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR Pool) managed by Central Government, which in turn pays back to Authorities their share of the pool based on a standard amount per head of the resident population. The total rateable value as at 31st March 2013 was £99.4m (2011/2012: £100.0m).

In line with the Local Government Act 2003, from 1st April 2005, there are two multipliers, the small business non-domestic rating multiplier, which is applicable to those that qualify for the small business relief; and the non-domestic rating multiplier, which includes the supplement to pay for small business relief. The small business non-domestic rating multiplier for 2012/13 was 46.2 pence per pound of rateable value and the non domestic rating multiplier was 47.1 pence per pound. As part of the NNDR regulations, all commercial premises are periodically revalued by the Valuation Office and a new rating list was put into effect from 01/04/10. As part of this process the total rateable value increase was offset by a decrease in the multiplier.

From April 2013 the new NNDR retention scheme was introduced with Councils now responsible for a percentage share of all transactions in relation to NNDR income in their area. This to include movement up and down in NNDR income, (up to a safety net), which includes the payment of any outstanding NNDR appeals as at 31st March 2013 that have not yet been determined by the valuation office. Torbay Council as a unitary authority will be responsible for 49% of the NNDR income, Devon and Somerset Fire authority 1% and the Department of Communities and Local Government 50%. The Council's 2012/13 accounts assume that changes in the recognition of assets and liabilities of NNDR arising from the NNDR retention scheme introduced by central government from April 2013 will apply in 2013/14 with no impact on balances as at 31st March 2013, as there is no "past event" relating to 2012/13.

D) Distribution of previous years' estimated Collection Fund surplus/(deficit)

2011/2012		**2012/2013**
£000's		**£000's**
1,209	Torbay Council	**1,873**
150	Devon and Cornwall Police Authority	**232**
69	Devon & Somerset Fire & Rescue Authority	**106**
1,428	**Total**	**2,211**

E) Accounting for the Collection Fund balance

The opening balance for the Collection Fund for 2012/13 was £3.1m. The balance as 31 March 2013 was £2.2m surplus. Surpluses and deficits are shared with the other major precepting bodies that make a demand on the fund. The Council accounted for the Collection Fund balance in its 2012/13 Statement of Accounts as follows.

2011/12 £m	**Major Precepting Bodies:-**	**2012/13 £m**
2.6	Torbay Council	**1.9**
0.3	Devon and Cornwall Police Authority	**0.2**
0.2	Devon and Somerset Fire and Rescue Authority	**0.1**
3.1		**2.2**

In the Balance Sheet as at 31 March 2013 the Council included the disaggregated amounts for Devon & Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority within its current assets and liabilities. The surplus attributable to Torbay Council has been treated as a credit on the Collection Fund Adjustment Account.

In addition to the statutory Collection Fund Statement, the Council in its Income & Expenditure account now reflects, as income in year, its share, based on precepting values, of the year end Collection Fund position. The Council on its balance sheet reflects its share of year end assets (arrears and impairment) and liabilities (prepayments) attributable to the Collection Fund. The balance is shown in the accounts of the individual precepting bodies.

GROUP ACCOUNTS 2012/13

These Accounts consolidate the accounts of the Council with the Council's subsidiaries and associates with the aim of providing users with a full picture of the Council's control and influence.

The Group Accounts are prepared in accordance with relevant legislation and guidance, primarily International Financial Reporting Standards (IFRS) and the CIPFA Accounting Code of Practice ("the Code").

In preparing the Group Accounts the Council has aligned the accounting policies of all group companies with those of the Council and made consolidation adjustments where necessary.

For subsidiaries the Council has consolidated the financial statements of the subsidiary companies with those of the Council on a line by line basis; and has eliminated in full balances, transactions, income and expenses between the Council and its subsidiary.

Additional information has been included in the table below to support the Group Accounts where there is a difference to the values in the Council's single entity Accounts. Debtor and Creditors included in the Group Accounts exclude any amounts owed within the Group. Any council contingent liability in relation to its group members are disclosed in the single entity accounts note 42. So users may wish to refer to the individual notes included in the Council's single entity accounts.

All the companies within the group have a reporting period end date of the 31st March. Subsidiary companies have been consolidated into the group accounts using acquisition accounting and associates using equity accounting. The net equity of subsidiaries, whether in deficit or surplus, has been consolidated. Associates have only been consolidated to their net equity if surplus. If the net equity is in deficit due to cumulative losses, deductions (from Group reserves) are suspended so that the carrying amount does not become negative. A summary of the 2012/13 accounts for the associate companies is included in a table after the group accounts statements.

For those companies within the group that are 'Limited by Guarantee and not having a share capital' any surplus is reinvested into their activities. The Torbay Economic Development Company Ltd (TEDC Ltd) is a private limited company; however the intention is that any surplus is reinvested into the service. TOR2 is also a private limited company where the Council is due a share of any profits (not applicable in 2011/12 or 2012/13).

The Council's interest in TOR2 Ltd is less than the accounting presumption that a 20% holding in a company is necessary for significant influence. The Council has considered its relationship with this company and concluded that it does have significant influence over it due to the dependence it has on the Council. Therefore the company has been treated as associate.

The consolidation has resulted in relatively small movements between the Council's single entity account compared to the group accounts as the Council is the main funder of both subsidiary companies and only one of the associates has a surplus in its net equity. The value of the non current assets in the subsidiary companies is a result of the Council transferring assets to the companies at nil consideration.

The table below show the changes, by balance sheet heading, between the Council's single entity accounts and the Council's group accounts.

	Torbay Council Single entity accounts	Torbay Council Group Accounts	Variance	Note
Total Reserves/Net Equity/Net Assets	71.7	71.6	(0.1)	ERTC Reserves £(0.2)m of which £(0.2) is pension related TEDC Shareholder funds £3.1m of which £4.2 is revaluaton reserve, £(0.4)m pension related and £(0.7) is retained profit and loss. Torbay Council's share of PLUSS reserves is £ 0.1 m, of which £(0.6) is pension related and and £0.7 is retained profit and loss. Derecognition of Council's investment in TEDC Ltd removed on consolidation £(3.1)m
Long Term Assets	295.7	297.6	1.9	Primarily the value of TEDC Ltd long term assets of £4.8m, property for regeneration purposes less the value of the Council's investment in TEDC Ltd of £3.1m which has been removed on consolidation.
Current Debtors	17.0	15.4	(1.6)	Consolidation of monies owed by Subsidiaries
Cash & Cash Equivalents	2.1	3.3	1.2	Cash balances held by TEDC Ltd and ERTC Ltd
Net Pension Liability	(125.3)	(126.6)	(1.3)	ERTC liability is £(0.3)m and TEDC liability is £(0.4)m Torbay Council's share of

				PLUSS liability is £(0.6)m Note ERTC, TEDC and PLUSS are all admitted to the Devon County Local Government Pension Scheme
(Surplus)/Deficit on Provision of Services	63.1	63.0	(0.1)	ERTC loss in year £0.012m TEDC loss in year £(0.08)m Torbay Council's share of PLUSS loss in year £(0.04)m

As at the 31st March 2013 the net balances outstanding between members of the group were:-

Torbay Council and TOR2 Ltd, a net £0.8 m owed by the Council

Torbay Council and the Torbay Economic Development Company, a net £0.2m owed by Torbay Council.

The following companies fall within the Torbay Council group of companies for accounting purposes:-

Company Name and Reg'n No	Type of Company	Commenced Trading	Principal Activities during the year	Assessed Relationship	Shareholding /Control and Company Directors
Torbay Economic Development Company Ltd 07604855	Private Limited Company	14th April 2011	To bring about Regeneration in Torbay In 12/13 Council paid £2.2m grant	Subsidiary	Shareholding /Control: 100% Members of Torbay Council that are Directors of this Company are as follows:- Cllr Alan Faulkner Cllr David Thomas Cllr Alan Tyerman A full list of directors is available at:- http://www.torbaydevelopmentagency.co.uk/

English Riviera Tourism Company Ltd 07223987	Local Authority Controlled Company Limited by Guarantee and not having a share capital	1st October 2010	Marketing the English Riviera and managing and delivering the English Riviera Visitor Information Service In 12/13 Council paid £0.6m grant	Subsidiary	Shareholding /Control: 100% Members of Torbay Council that are Directors of this Company are as follows:- Cllr. Roger Stringer Cllr. Jeanette Richards A full list of directors is available at:- http://englishrivieratourism.co.uk/ertc-board-members.php
Torbay Enterprise Agency Ltd 02222483	Local Authority Controlled Company Limited by Guarantee and not having a share capital	Incorporated: 17th February 1988. Company dissolved in 2012/13	Provision of free professional advice and practical guidance to small business in Torbay and the management and rental of industrial units	Subsidiary Not consolidated as not trading	Shareholding /Control: 100%
Brighter Bay Ltd 07157188	Local Authority Controlled Company Limited by Guarantee and not having a share capital	Incorporated: 15th February 2010 – Dormant in 2012/13 Company was dissolved on 5th June 2012	Dormant	Subsidiary Not consolidated as not trading	Shareholding /Control: 100%
TOR2 Ltd 07204696	Company limited by share	19th July 2010	Waste and recycling collections; maintenance of highways, grounds, parks, car parks, buildings and the Council's vehicle fleet; street and beach cleansing; and out of hours call centre support in the Torbay area Council has 10 year contract with TOR2 for a number of services with an annual value of approx £12m	Associate	Shareholding /Control: 19.99% Members of Torbay Council that are Directors of this Company are as follows:- Cllr Peter Addis The full list of directors who held office during the year were as follows: William MacDiarmid Ciaran Kennedy Peter Addis Jonathan Wilkinson

Careers South West Ltd 3029947	Local Authority Controlled Company Limited by Guarantee and not having a share capital	1st April 2008 formerly Connexions Cornwall & Devon Ltd	To develop, co-ordinate, operate and ensure provision of support services for young people and provide careers advice, information and guidance to people of all ages. In 12/13 Council funded a £0.6m payment	Associate	Shareholding /Control: 25% A list of directors is available at: http://www.careerssw.org/about-csw/about-us-2/our-board
Oldway Mansion Management Company Ltd 8219420	Company limited by share	20th September 2012	To manage the Oldway Estate on behalf of Torbay Council and tenants In 12/13 Council funded a £0.04m payment	Subsidiary	Shareholding /Control: 100% Directors: M Phillips (Officer Torbay Council) C Uzzell (Officer Torbay Council)
The PLUSS Organisation Ltd 05171613	Local Authority Controlled Company Limited by Guarantee and not having a share capital	1st August 2005	Primary purpose is to inspire people of all abilities to achieve a career. The key areas are employment services and supported enterprises In 12/13 Council funded a £0.4m payment plus purchases of equipment.	Associate	Shareholding /Control: 25% Members of Torbay Council that are Directors of this Company are:- Councillor Stocks A full list of directors is available at: http://www.pluss.org.uk/pluss-board-directors

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council and its group members, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other ‘unusable’ reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council’s group services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement.

	General Fund Balance	Earmarked General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's share of reserves of Subsidiarie	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2011 carried forward	**4.0**	**32.8**	**0.5**	**17.0**	**54.3**	**133.8**	**188.1**	**0.1**	**188.2**
<u>Movement in Reserves during 2011/12</u>									
Surplus or (deficit) on provision of services	(26.3)	-	-	-	(26.3)	-	**(26.3)**	**0**	**(26.3)**
Other Comprehensive Expenditure and Income (in I&E Statement)	-	-	-	-	**-**	(33.2)	**(33.2)**	**0**	**(33.2)**
Total Comprehensive Expenditure and Income	**(26.3)**	**-**	**-**	**-**	**(26.3)**	**(33.2)**	**(59.5)**	**0**	**(59.5)**
Adjustments between Group Accounts and Authority Accounts	0.7		-	-	**0.7**	**1.9**	**2.6**	**2.4**	**5.0**
Adjustments between accounting basis & funding basis under regulations	26.2	-	(0.5)	(3.2)	**22.5**	(22.5)	**-**	**0**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**0.6**	**-**	**(0.5)**	**(3.2)**	**(3.1)**	**(53.8)**	**(56.9)**	**2.4**	**(54.5)**
Transfers to/from Earmarked Reserves	(0.6)	0.6	-	**-**	**-**	-	**-**	**0**	**0**
Increase/(Decrease) in Year	**0.0**	**0.6**	**(0.5)**	**(3.2)**	**(3.1)**	**(53.8)**	**(56.9)**	**2.4**	**(54.5)**
Balance at 31 March 2012 carried forward	**4.0**	**33.4**	**0.0**	**13.8**	**51.2**	**80.0**	**131.2**	**2.5**	**133.7**
<u>Movement in Reserves during 2012/13</u>									

	General Fund Balance	Earmarked General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's share of reserves of Subsidiarie	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Surplus or (deficit) on provision of services	(63.0)	-	-	-	(63.0)	-	**(63.0)**	**0**	**(63.0)**
Other Comprehensive Expenditure and Income (in I&E Statement)	-	-	-	-	**-**	0.2	**0.2**	**0**	**0.2**
Total Comprehensive Expenditure and Income	**(63.0)**	**-**	**-**	**-**	**(63.0)**	**0.2**	**(62.8)**	**0**	**(62.8)**
Adjustments between Group Accounts and Authority Accounts	(0.1)				**(0.1)**	0.3	**0.2**	**0.5**	**0.7**
Adjustments between accounting basis & funding basis under regulations (Note 7)	60.0		0.7	(2.1)	**58.6**	(58.6)	**0**	**0**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**(3.1)**		**0.7**	**(2.1)**	**(4.5)**	**(58.1)**	**(62.6)**	**0.5**	**(62.1)**
Transfers to/from Earmarked Reserves (Note 8)	3.5	(3.5)							
Increase/(Decrease) in Year	**0.4**	**(3.5)**	**0.7**	**(2.1)**	**(4.5)**	**(58.1)**	**(62.6)**	**0.5**	**(62.1)**
Balance at 31 March 2013 carried forward	**4.4**	**29.9**	**0.7**	**11.7**	**46.7**	**21.9**	**68.6**	**3.0**	**71.6**

Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services by the council, its subsidiaries and its share of associates in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

2011/12 Gross Exp £m	2011/12 Gross Income £m	2011/12 Net Exp £m	Services:	2012/13 Gross Exp £m	2012/13 Gross Income £m	2012/13 Net Exp £m
19.6	(17.1)	**2.5**	Central Services to the Public	18.9	(17.0)	**1.9**
12.7	(2.1)	**10.6**	Cultural Services	11.2	(1.8)	**9.4**
17.7	(4.3)	**13.4**	Environmental and Regulatory Services	19.5	(4.1)	**15.4**
10.9	(2.1)	**8.8**	Planning and Regeneration Services	6.6	(1.9)	**4.7**
132.5	(93.0)	**39.5**	Childrens and Education Services	110.2	(77.8)	**32.4**
19.3	(8.2)	**11.1**	Highways and Transport Services	19.3	(7.7)	**11.6**
76.0	(68.6)	**7.4**	Housing Services	78.8	(72.8)	**6.0**
47.5	(4.0)	**43.5**	Adult Social Care	46.1	(3.5)	**42.6**
0	0	**0**	Public Health	0.1	(0.1)	**0**
3.1	0.0	**3.1**	Corporate and Democratic Core	4.2	(0.1)	**4.1**
1.7	(1.1)	**0.6**	Non distributed costs – other	2.8	(3.2)	**(0.4)**
341.0	**(200.5)**	**140.5**	**Cost Of Services**	**317.7**	**(190.0)**	**127.7**
22.0	(1.0)	**21.0**	Other Operating Expenditure	60.7	(1.6)	**59.1**
22.2	(14.6)	**7.6**	Financing and Investment Income and Expenditure	21.8	(13.1)	**8.7**
0.0	(142.9)	**(142.9)**	Taxation and Non-Specific Grant Income	0	(132.3)	**(132.3)**
		26.2	**(Surplus) or Deficit on Provision of Services**			**63.2**
		(0.1)	Share of the (surplus) or deficit on the provision of services by associates.			**(0.2)**
		0.0	Tax expenses of subsidiaries			**0**
		0.2	Tax expenses of associates			**0**
		26.3	**Group (Surplus)/Deficit**			**63.0**
		(14.7)	Surplus or deficit on revaluation of non current assets			**(1.4)**
		46.7	Actuarial (gains) / losses on pension assets / liabilities			**0.6**
		1.3	Share of other Comprehensive income and expenditure of associates			**0.6**
		(0.1)	Tax relating to Other Comprehensive and Expenditure – Associates			**0**
		33.2	**Other Comprehensive Income and Expenditure**			**(0.2)**
		59.5	**Total Comprehensive Income and Expenditure**			**62.8**

Group Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council, its subsidiaries and its share of associates. The net assets of the Council, (assets less liabilities), are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council or members of its group may use to provide services. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve).

31 March 2012		31 March 2013
£m		£m
316.3	Property, Plant & Equipment	**252.3**
22.2	Heritage Assets	**25.4**
4.1	Investment Property	**8.5**
0.5	Intangible Assets	**0.4**
0	Long Term Investments	**5.0**
0	Investments in Associates	**0.1**
2.9	Long Term Debtors	**3.0**
346.0	**Non Current (Long Term) Assets**	**294.7**
94.4	Short Term Investments	**77.5**
0.7	Assets Held for Sale	**2.0**
0.1	Inventories and other current assets	**0.2**
11.3	Short Term Debtors	**15.4**
14.6	Cash and Cash Equivalents	**3.3**
121.1	**Current Assets**	**98.4**
(2.0)	Short Term Borrowing	**(1.9)**
(0.4)	Other Short Term Liabilities	**(0.4)**
(37.9)	Short Term Creditors (inc Receipts in Advance)	**(23.2)**
(1.4)	Provisions	**(1.7)**
(0.9)	Capital Grants/Contributions: Receipts in Advance	**(3.6)**
0	Cash and Cash Equivalents	**(4.3)**

31March 2012 £m		31 March 2013 £m
(42.6)	**Current Liabilities**	**(35.1)**
(1.2)	Long Term Creditors	**(1.5)**
(0.2)	Provisions	**(0.2)**
(153.7)	Long Term Borrowing	**(148.3)**
(10.3)	Other Long Term Liabilities	**(9.8)**
(124.9)	Pension Liability	**(126.6)**
(0.5)	Grants/Contributions Receipts in Advance-Capital	**0**
(290.8)	**Long Term Liabilities**	**(286.4)**
133.7	**Net Assets**	**71.6**
53.7	Usable reserves	**46.7**
80.0	Unusable Reserves	**24.9**
133.7	**Total Reserves**	**71.6**

The unaudited accounts were issued on 29th June 2013 ~~and the audited accounts were authorised for issue on 26th September 2013.~~

~~P LOOBY BA CPFA~~
~~Chief Finance Officer~~
~~26th September 2013~~

Group Cash Flow Statement

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

2011/12 £m		2012/13 £m
(26.3)	Net surplus or (deficit) on the provision of services	(63.2)
45.2	Adjustments to net surplus or deficit on the provision of services for non cash movements	57.0
(1.2)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(1.8)
17.7	Net cash flows from Operating Activities	(8.0)
3.5	Investing Activities	(1.2)
(9.4)	Financing Activities	(6.4)
11.8	**Net increase or (decrease) in cash and cash equivalents**	**(15.6)**
2.8	Cash and cash equivalents at the beginning of the reporting period	14.6
14.6	**Cash and cash equivalents at the end of the reporting period**	**(1.0)**
11.8	Net increase or (decrease) in cash and cash equivalents	**(15.6)**

Summary financial information of Associate Companies

This table lists summary information about the Council's interest in associate companies and its relationship with them in terms of ownership and trading.

	TOR2 Ltd		**Careers South West Ltd**		**The PLUSS Organisation Ltd**	
	Total	Torbay Council's Share (19.99%)	Total	Torbay Council's Share (25%)	Total	Torbay Council's Share (25%)
2011/12	£m	£m	£m	£m	£m	£m
Income	(14.8)	(2.9)	(12.5)	(3.1)	(27.4)	(6.9)
Expenditure	16.0	3.2	11.9	3.0	26.7	6.7
Operating (Profit) or loss	1.2	0.3	(0.6)	(0.1)	(0.7)	(0.2)
Other Comprehensive Income	0.1	0	(0.3)	(0.1)	(0.1)	0
Actuarial (gains)/Losses recognised in the pension scheme	0	0	3.9	1.0	1.7	0.4
Taxation (including deferred)	(0.3)	(0.1)	0	0	(0.3)	0
Total	1.0	0.2	3.0	0.8	0.6	0.2
Assets	5.9	1.2	3.9	1.0	7.7	1.9
Liabilities	(8.3)	(1.7)	(7.8)	(2.0)	(7.4)	(1.9)
Total	**(2.4)**	**(0.5)**	**(3.9)**	**(1.0)**	**0.3**	**0**
2012/13						
Income	(15.4)	(3.1)	(13.8)	(3.5)	(27.4)	(6.9)
Expenditure	14.6	2.9	13.5	3.4	27.5	6.9
Operating (Profit) or Loss	(0.8)	(0.2)	(0.3)	(0.1)	0.1	0
Other comprehensive income and expenditure	0.2	0.1	0	0	0.2	0.1
Actuarial (Gains)/Losses recognised in the pension scheme	0	0	3.2	0.8	(0.6)	(0.2)
Taxation	0.1	0	0	0	0.1	0
Total	(0.5)	(0.1)	2.9	0.7	(0.2)	(0.1)
Assets	5.3	1.0	4.8	1.2	7.6	1.9
Liabilities	(7.2)	(1.4)	(11.5)	(2.9)	(7.0)	(1.8)
Total	**(1.9)**	**(0.4)**	**(6.7)**	**(1.7)**	**0.6**	**0.1**

ANNUAL GOVERNANCE STATEMENT 2012/13

ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2012/13

Scope of responsibility

Torbay Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. Torbay Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Torbay Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* A copy of the code is on the Council's website at The Council's Constitution or can be obtained from Democratic Services. This statement explains how Torbay Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Torbay Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Torbay Council throughout the year ended 31st March 2013 and up to the date of approval of the annual report and statement of accounts.

The Governance framework

The key elements of Torbay Council's governance framework are summarised below:

(A) Arrangements for identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

- A Community Plan refreshed in Autumn 2011 sets out the Council's vision developed jointly with the Torbay Strategic Partnership which brings together representatives of the public, voluntary and business sectors
- A Corporate Plan revised in March 2013 to reflect the current priorities of the Council
- A medium term resource plan which is regularly and updated to support the achievement of the Council's corporate priorities
- A performance management framework which includes performance reports reported to the public
- A programme of consultation with the public through public meeting and other mediums on a regular basis
- As part of its budget setting process the Council co-ordinates a series of public events to gain an understanding of the communities views.
- The Council and the Care Trust, together with the Police and other partners have worked together to identify the needs of the area, including Health matters, and published a Joint Strategic Needs Assessment
- The Corporate Plan and Business Plans are reviewed annually as part of the Council's Annual Planning Cycle
- The Council's Communication Strategy, is communicated to staff, and all stakeholders via regular internal and external updates using promotional material, the web, the intranet
- Torbay Council 2012/13 Statement of Accounts for the year ended 31st March 2013
- Community Partnerships where local ward members and stakeholders can discuss concerns and issues with their constituents

(B) Arrangements for reviewing the authority's vision and its implications for the authority's governance arrangements

- The authority has also kept under review other key initiatives such as the actions arising from the Joint Strategic Needs Assessment for Health and Well Being,
- Regular consultation events were also used to inform the development and review of the authority's vision. These have continued to be used to obtain feedback on both service delivery and proposed plans and developments
- The budget setting process includes detailed scrutiny of proposals and their links to the Council's vision, priorities and stakeholder views, together with equalities impact assessments
- The Council is also very mindful that staff are also key stakeholders and as such, senior officers and Members have taken part in road shows. Internal communication approaches have been reviewed to ensure all staff are aware of all issues and new policies and practices. Positive working relationship with trades unions through monthly formal meetings and informal meetings with the Chief Operating Officer and consultation where appropriate

(C) Arrangements for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

- Surveys of users in service specific groups are used together Viewpoint surveys to assess quality of service and policy changes to be made in light of user feedback. All these surveys and results are publicly accessible on the Council website. In addition the Council also encourages user involvement in appropriate services areas, examples being Speaking out in Torbay (SPOT) within the learning disabilities

- The Council records performance information using performance-reporting software 'Service Performance and Risk' (SPAR) and action on areas of poor performance is closely scrutinised, by the senior leadership team and Overview and Scrutiny members. The performance reporting system is based on exceptions and where performance is identified as a concern, appropriate corrective action will be considered, scrutinised and monitored

- The Council uses a range of benchmarking information, including the Audit Commission comparative data set and National Health Service (NHS) data. It uses the data to measure performance against comparators and to identify authorities from whom the Council could learn, and to identify potential areas of focus for budget reductions

- There is also a range of consultation and feedback mechanisms for obtaining feedback from customers

(D) Arrangements for defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

- The Constitution sets out how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people

- This includes the publication of a monthly Forward Plan containing all key decisions

- The Constitution includes Standing Orders, Financial Regulations, Delegated powers, Contract Procurement rules and the budget and policy framework. These are underpinned by Codes of Conduct for officers and Members, Gifts and Hospitality rules, local protocols and by the Authority's Code of Corporate Governance

- The full Council of 37 elected Members, including the Mayor, is responsible for approving the Mayor's budget and the policy framework. The Mayor is responsible for decisions within this framework and has been supported by other Members who oversee and advise on specific areas

- Matters outside of the budget and policy framework are referred to full Council for decision or advice to the mayor who normally makes decisions at the full council

- A Scrutiny function with the Overview & Scrutiny Board which undertakes a range of reviews into policies and performance. The Board also has the facility to 'call–in' Mayoral decisions or Officer key decisions and makes recommendations as appropriate

- An Audit Committee is responsible for all internal and external audit matters along with some other Governance associated matters

- Some regulatory functions remain the responsibility of the Council rather than the Mayor and most of these are delegated to a small number of regulatory committees appointed annually by the Council

- All meetings are open to the public but a small number of confidential matters are considered in private when the press and public are formally excluded from meetings. It is the Council's objective to keep these private papers to a minimum with only the confidential elements being kept exempt from the press and public. This ensures open and transparent decision making is undertaken at all times. Council officers provide appropriate advice at the points of consideration and decision, and report to Members on progress and outcomes of decisions taken

- The Authority has developed a number of Local Protocols (including in relation to Member and Officer Relations; Planning Matters and the role of the Monitoring Officer), all in line with good Corporate Governance

- The Localism Act 2011 abolished the Standards Board regime and the national code of conduct that went with it and replaced it with a requirement that authorities promote and maintain high standards of conduct by members. Part of this requirement is that the Council adopts a 'local' code of conduct dealing with what is expected of members and co-opted members of the authority when they are acting in that capacity and that such code makes appropriate provision for the registration by members of pecuniary and other interests of members. This code was adopted by the Council at its meeting of 12 July

(E) Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

- The Council's intranet contains a range of policies, procedures and guidance for all staff including Human Resources (HR) policies, I- learn training modules, Computer Security Policy, Freedom of Information Policy and Data Protection Policy and the Corporate Plan and Constitution

- Legislative changes are monitored and reported to Strategic Leadership Team (SLT) and communicated to staff as required.

- Corporate induction courses are run on a regular basis. Managers are responsible for local induction arrangements. Officers in politically restricted posts and those responsible for negotiating contracts are required to register their personal interests

- The Council has a Fraud and Corruption Policy which is reviewed regularly and has been communicated to all staff and is available on the Council's Intranet. That has been discussed and approved by the Council's Standards Committee

- The Standards Committee's remit includes the conduct of Members and investigating complaints in respect of individual Members. The Standards Committee has an annual work programme to promote and embed ethical standards and this is reported to the Council

(F) Arrangements for reviewing and updating Standing Orders and Financial Regulations, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

- The Council's Constitution is reviewed throughout the year by the Monitoring Officer, Section 151 Officer and Democratic Services Manager in consultation with the Mayor and Group Leaders to ensure the Council's governance arrangements reflect best practice

- Directors and Executive Heads are responsible for managing risk within their departments

- The Executive Head Business Services is responsible for the implementation and monitoring of the risk management strategy

- The Council completed a detailed review of its Risk Management Policy and Strategy and the Strategic Risk Register in the current year including the identification of 6 strategic risks with clearly identified measures for mitigation

- The Council, when considering any matter, will have a risk assessment within the report

- The Council fully recognises the need to continue to manage risks in all projects and, where appropriate Prince II and MSP are applied

(G) Ensuring the Authority's financial management arrangements conform with the governance arrangements of the CIPFA statement on the role of the Chief Finance Officer (CFO) in local government.

- The Chief finance Officer (CFO) has direct access to the Chief Operating Officer on all matters and has direct access to all Members and senior officers of the Council
- The Council follows practices to ensure it makes best use of its resources. The CFO works with Directors and Executive Heads to identify any financial issues which may require management action. These are reported to the Overview and Scrutiny Board and Council on a quarterly basis, regular discussions take place with the Executive Member with responsibility for finance
- All reports to Members include a section on the resource implications, prior to publication these implications are cleared by the CFO or one of his senior staff. These reports also cover value for money and benchmarking implications where appropriate
- The full Council approves the Treasury Management Strategy on an annual basis and all Members are briefed on key financial issues
- The CFO has responsibility for ensuring that the Council operates secure and reliable financial and accounting systems. Devon Audit Partnership undertake the role of auditing these systems to give the assurance needed
- The Council has developed a Medium Term Resource Plan, which is reviewed on an on-going basis to take into account new information and changing circumstances, this is used to inform reports to members, detailed in year plans are produced as part of the annual budget process, these in year plans represent the business units individual business plans through which financial and operational performance are monitored

(H) Undertaking the core functions of an Audit Committee, as defined in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

- A stand alone Audit Committee was established during 2008-09 and meets on a quarterly basis where reports from both Internal and External Audit are considered as well as risk and associated matters

(I) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

- The system of internal financial control is based on a coherent accounting and budgeting framework including Financial Regulations, Contract Standing Orders, Scheme of Delegation and accountability
- Medium-term resource plans covering both revenue and capital spend which provides a framework for the planning and monitoring of resource requirements. These also link in with the business development proposals which are fed by the Strategic Plan
- Operation of the Capital Strategy aims to ensure that investment is linked to Strategic Objectives. Bids for capital and other asset management funding require an effective 'business case' linked to Strategic Objectives, and progress in delivering projects is formally monitored by the Capital Asset Management Team, Councillors and Commissioners' Management Teams. Linked in with this is the Asset Management Plan which ensures that assets are only retained for effective business purposes
- Financial stewardship in respect of both capital and revenue is reported to Overview and Scrutiny and Council quarterly, and is considered regularly by the Strategic Leadership Team. Management Teams also consider their respective budgets on a regular basis. This is supported by an established

budget monitoring process by managers and Finance staff and the electronic distribution of budget monitoring reports to all managers

- Directors and Executive Heads are required to produce an annual statement of Internal Control for their areas which includes statements about risk and the internal control framework. This is supported by Internal Audit who help embed risk management by cyclical audits and other management initiatives

(J) Arrangements for Whistle-blowing and for receiving and investigating complaints from the public

- The **Fraud & Corruption Policy, Fraud Response Plan and Whistle Blowing Policy** were reviewed and updated in 2008. A further review was undertaken during 2012/13 with an updated Whistle Blowing policy being agreed on 20 March 2013. The Policy is available on the website, intranet and direct from the Information Governance team. The Authority also subscribes to Public Concern at Work which provides a staff helpline

- The Council has an established phone line that any whistle blowing call can be made to and which goes directly to the area which has responsibility for dealing with these issues in the first instance. These are recorded and passed on to the appropriate part of the organisation to investigate and the outcomes are monitored

- The Council has procedures for dealing with customer complaints and provides the means for customers to feedback concerns or issues. Complaints are analysed and reported back to Members and Managers along with the actions taken. An Annual Report is produced outlining the complaints and compliments handled by the Council and Ombudsman during the previous financial year. This is reported to the Overview & Scrutiny Board. Customer Care standards have been agreed and published. The complaints procedures are regularly reviewed.

(K) Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training

- All members have personal development plans, corporate training needs are identified through the Strategic Leadership Team

- The Member Development Policy provides a structured approach to member development to ensure all members are supported in their role. The majority of training delivered through the Devon member development shared service

- The Council has strongly supported staff development, particularly through programmes such as Institute of Leadership and Management

(L) Arrangements for establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

- Regular consultation events are held with public and voluntary services plus regular business forum meetings. Other consultation and feedback surveys are also undertaken throughout the year including via the Viewpoint Panel

- Torbay Council operates a Call Centre which is based in Torquay and deals with a wide variety of calls from residents and visitors over an expanding range of issues as more services are included in those dealt with in the first instance by the centre

- All customer contact received via our Call Centre or our Connections offices is documented to ensure the information is actioned by, or forwarded to, the relevant department, as necessary. The Council also uses its libraries as initial contact points from which enquiries can also be dealt with

- The Consultation and Engagement framework is available on the website indicating mechanisms and groups and how the Consultation and Engagement Group effectively manages engagement with the public and voluntary sector. There are also a number of Community Partnerships across Torbay and regular newsletters to Viewpoint Panel members. Councillors have also been encouraged to produce their own means of communication and, for example a number have created their own websites

(M) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

- The Council's Code of Corporate Governance is available on its website. There is a robust Constitution established for the local Community Partnerships

- Appropriate arrangements in respect of service specific partnerships such as the Torbay Care Trust and the Torbay Coast & Countryside Trust, TOR2 and English Riviera Tourist Company and Economic Development Company are in place

Review of effectiveness

- Torbay Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of the Devon Audit Partnership's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates

- Overall responsibility for the governance framework including the system of internal control rests with the Mayor and Chief Operating Officer and they receive regular reports from the Section 151 Officer on financial issues and the Monitoring Officer on legal issues as and when appropriate. This includes regular budget monitoring information and the Medium Term Resource Plan

- This is supported by an annual review of Internal Audit by the Section 151 Officer which reviews compliance with the CIPFA Code of Practice and the effectiveness of the audit service. 2012-13 saw the fourth year of operation of the Devon Audit Partnership which was the amalgamation of the three Internal Audit functions of Devon County Council, Plymouth City Council and Torbay Council and has continued during this year. As in previous years the service undertook certain assurance work on behalf of the Council and to give assurance to the external auditors as part their audit opinion. The external auditors raised no concerns about the standard of work performed by the Devon Audit Partnership. No major issues were identified and the service has maintained the level of assurance it is able to provide to management

- The Council's Constitution is continually reviewed throughout the year by the Monitoring Officer, Section 151 Officer and Governance Support Manager in consultation with the Mayor and Group Leaders and defines the relative responsibilities of the Council, the Mayor, Overview and Scrutiny and Senior Officers. This also includes the Schemes of Delegation, and also the Officer Scheme of Delegation

- Torbay operates a mayoral system and has a constitutional working party whereby improvements and changes to the constitution are made and agreed. All members are inducted into the importance and processes of good governance and have informal and if required, formal ways of raising governance issues with the monitoring officer, chief executive, section 151 Officer and the senior leadership team

- Since the May 2011 elections the Mayor has chosen to make the majority of his decisions at council meetings to ensure they are taken in public both full council decisions (part of the policy framework) and Mayoral decisions are taken in public with full questions by council in order to further introduce further transparency and public accountability

- The Audit Committee and Overview and Scrutiny Board operate to provide assurance and call the executive to account, through decisions in the forward plan, performance management and risk and the use of 'call in' where appropriate

- Risk is embedded in performance management and can therefore be challenged and has oversight through the Executive, Audit Committee and Overview and Scrutiny Board

- The standards committee continue to be part of the successful operation of the council's governance,

- There is also the whistle blowing mechanism which can be used to raise concerns which can include governance matters. Standards also provide independent feedback to members in their public duties through observing conduct at Council, and Overview and Scrutiny. This has allowed members to improve their performance individually and collectively, in addition to the 1-1s of member performance management

- The Council continues to challenge itself in governance and includes governance 'days' for all members to refocus when required

- The council's section 151 officer holds regular meetings with the Head of the Devon Audit Partnership (DAP) with responsibility for Torbay to discuss all on-going and planned work and any issues which arise. The Head of Internal Audit reports 6 monthly to the Audit Committee setting out work undertaken and the planned work for the year. This will include reporting on audits and work undertaken where there are concerns over practice or systems of internal control and sets out how these will be addressed

Internal Audit

- The internal audit services is provided by Devon Audit Partnership (DAP). This is a shared service arrangement between Torbay, Plymouth and Devon councils and is constituted under section 20 of the Local Government Act 2000

- Public Sector Internal Audit Standards – Collaboration between the Institute of Internal Auditors, CIPFA and International Audit Standards Setters has resulted in the first set of public sector internal audit standards (PSIAS) for the UK. The PSIAS, which came into force on 1 April 2013, have been developed to create consistent standards for the practice of internal audit across the public sector. An independent review of DAP was completed in November 2012 and confirmed that DAP were "ready" for the planned changes in approach

- The Council's Internal Audit Plan, which is risk based, is agreed annually with Commissioners and the Council's Audit Committee. This provides the basis for the review of internal control and governance within the Council and includes the following: -

    - Annual reviews of the Council's key financial systems by Internal Audit against known and evolving risks

    - Cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks based on a detailed risk assessment which considers the strategic and operational risks identified in the Corporate Risk Register and Business Plans and also includes consideration of materiality, sensitivity and previous audit and inspection findings;

- Work in relation to the prevention of fraud and corruption and an allowance for the investigation of any potential irregularities identified either from audit work or through the Council's whistle-blowing policy.

- Advice and support to ensure future safeguards when implementing new systems

- Value for Money work in relation to assessing the efficiency, economy and effectiveness of the Council's operations and recommending improvements as necessary

- The Council also receive reliance from the NHS Internal Audit Confederation over the controls in operation at Torbay and Southern Devon Health and Care NHS Trust. The controls cover the provision of the adult social services

- Achievement of the Audit Plan is reported to the Audit Committee on a twice yearly basis. This report also includes an opinion and assurance about the system of internal control throughout the Council

- Regular meetings were also held between the Section 151 Officer and a representative of the Devon Audit Partnership to discuss specific issues that have arisen

Significant governance Issues

- No significant governance issues have been identified. Overall, and based on work performed during 2012/13, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

GLOSSARY OF TERMS

A

Academy Schools – These are independent schools publically funded from the Department of Education. Community (i.e. Council controlled) schools can transfer to academy status where they will often become charitable trusts.

Actuarial Gains & Losses – For a defined pension scheme, the changes in actuarial deficits or surpluses that arise because events have not matched previous assumptions and/or actuarial assumptions have changed.

Agency – Under an agency arrangement the Council acts on behalf of other bodies, so in effect any monies that flow through the Council's accounts under that arrangement are not the Council's asset or liability.

Amortisation - a term used to refer to the charging of the value of a transaction or asset (usually related to intangible assets or deferred charges) to the Income and Expenditure Account over a period of time, reflecting the value to the Council (similar to the depreciation charge for tangible fixed assets).

Amortised Cost – the fair value of a financial instrument valued using the effective interest rate inherent in the contract.

Assets Held For Sale – a category of property where the property is expected to be sold and is to be actively marketed so is classified as a current asset rather than a non current asset.

Assets Under Construction – expenditure incurred to date on an asset that is being constructed and at balance sheet date is not operational.

Authorised for Issue Date – The date up to which the Council will have included latest information of financial transactions that would have a significant impact on both the Accounts for the year or on the readers understanding of the Council's financial position.

B

Borrowing - Councils borrow to fund Capital expenditure or for temporary cash flow requirements. The majority of Council borrowing will be from Central Government by means of the Public Works Loans Board. Council's are free to use other borrowing options provided they are within the Council's treasury management arrangements.

C

Capital Expenditure - payments made for the acquisition, provision or improvement of assets, which will be of a long-term value to the Council, e.g., land and buildings.

Capital Adjustment Account - The Capital Adjustment Account represents the capital funding used to finance capital investment immediately from capital receipts and directly from revenue. It also contains amounts which in the past were required by statute to be set aside from capital receipts for the repayment of external loans. The Account is also used to compensate the General Fund Revenue Account for any excess of charges paid in respect of depreciation of assets over the statutory Minimum Revenue Provision which Council Taxpayers are required to bear.

Capital Financing Requirement - The Capital Financing Requirement shows the underlying need to borrow as a result of capital investment and resources set aside in the year. The CFR was introduced from 1 April 2004 by the Prudential Code for Capital Finance and reflects the movement in the Balance Sheet Accounts for Fixed Assets, Capital Financing Account, Government Grants Deferred and the Fixed Asset Restatement Account.

Capital Receipts - money received from the sale of assets or the repayment of grants and loans which is available for financing future capital expenditure.

Cash & Cash Equivalents – cash, bank balances and short term investments that are held for the primary purpose of short term cash flow purposes and not for investment purposes.

CIPFA – The Chartered Institute of Public Finance and Accountancy – the accounting institute that helps regulate and support accountants in the public sector.

Code – The CIPFA Accounting Code of Practice – the guidance for Council's in producing their IFRS compliant accounts.

Corporate and Democratic Core – All activities which the Council engage in specifically because they are elected, multi-purpose authorities.

Current – a term applied to different categories of assets and liabilities to reflect that the asset or liability will be used or incurred within twelve months.

Current Service Costs (pension) – The increase in the present value of a defined benefit pension scheme's costs due to the employee service in the current period.

Current Value – The value that the majority of fixed assets are held at in the Council's balance sheet. This value reflects the most recent valuation of that asset or pending a valuation the current value is increased by capital expenditure on that asset.

Curtailment – For a defined benefit pension scheme, an event that reduces the expected years of future service of employees.

Creditors - amounts owed by the Council for work done, goods received or services rendered but for which payment had not been made by the end of the year.

D

DCLG – the Department for Communities and Local Government, the central government department responsible for local government.

DfE – the Department of Education, the central government department responsible for a number of service including schools. (Formerly the DCSF – Department for Childrens, Schools and Families).

Debtors - sums of money due to the Council but unpaid at the end of the year.

Defined contribution / defined benefit schemes (Pension costs) – There is an important distinction between defined contribution and defined benefit schemes in terms of pension accounting. The key features of each scheme are as follows:

Defined contribution:
• employer pays fixed amounts into the scheme and has no obligation to pay further amounts if the scheme does not have sufficient assets to pay employee benefits
• accounted for by charging employer contributions to revenue as they become payable

Defined benefit:
• retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits
• accounted for by recognising liabilities as benefits are earned (ie employees work qualifying years of service), matching them with the organisations attributable share of the scheme's investments

Depreciation - Amounts set aside from the revenue account which represent the wearing out, consumption of loss of value of a fixed asset spread over the useful life of the asset.

DWP – the Department of Work and Pensions – a central government department that deals primarily with welfare benefits.

E

ERTC – English Riviera Tourism Company Ltd. A subsidiary of Torbay Council

Exceptional Items – Events or transactions that fall within the ordinary activities of the Council and need to be disclosed separately due to their size to give fair presentation of the accounts.

Expected Rate of Return on Pension Assets – The average rate of return, including income but net of scheme expenses, expected over the remaining life of the pension.

Extraordinary Items – Abnormal material items, are those which fall outside the ordinary activities of the Council and which are not expected to recur.

F

Fair Value – the price an asset could be exchanged for in an arm's length transaction less any grant.

Fair Value through Profit and Loss – A classification of a type of financial asset. The Council's fund manager holding as been designated into this category as this holding meets the definition of this type of financial instrument – I.e. the holding is part of a portfolio of investments managed as a whole.

Finance Lease – A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Accounting guidance requires that it should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally ninety per cent or more) of the fair value of the leased asset. The present value is calculated by using the interest rate implicit in the lease.

Financial Instrument – a general term relating to a number of contractual arrangements, such as investments, borrowing, debtors and creditors, that a Council may incur. Based on this classification there are a number of additional accounting requirements relating to the fair value of an arrangement which may be different to the contractual amount due to an assessment of risk or value.

Formula Grant – The general grant awarded to Councils to support their revenue activities that comprises Revenue Support Grant and redistributed business rates.

Funded Pension Liabilities – These are liabilities relating to pensions due in the future to members of a pension fund based on the "standard" entitlements within the scheme.

G

Grants – Receipts in Advance – a grant from central government or other body that has conditions that will require repayment of the grant if not complied with. These grants are not recognised as income until the conditions are met.

H

Heritage Assets - Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.Heritage assets include historical buildings, archaeological sites, civic regalia, museum and gallery collections and works of art.

Historical Cost – the historical or original cost of a fixed asset can be increased by further capital expenditure on that asset.

I

Impairment – A reduction in the value of a fixed asset, below its balance sheet value.

Intangible Assets – (notably software) are recognised on the Balance Sheet at their cost of acquisition or development but only revalued in restricted circumstances.

Interest Costs for Pensions – The expected increase in value for a defined benefit scheme, as it draws closer to settlement.

Investment Properties – land and buildings held only for the income stream or for capital appreciation.

IFRS – International Financial Reporting Standards. These are the financial "rules" that Council accounts will have to comply with for reporting periods from 2011/12. These rules should be consistently applied throughout all bodies throughout the world.

J

Joint Arrangement – An arrangement under which the participants engage in joint activities but do not create a legal entity because it would not carry on a trade or business of its own.

Joint Committee – a formal committee of local authorities established under the provisions of Local Government Act 1972 usually for the management of a shared service.

L

Liquid Resources – Current asset investments that are readily disposable by the Council without disrupting its business.

Local Pay Review – Council are required to evaluate the pay of all staff (except teachers) to ensure equality of pay for all staff. This was implemented with an effective date of April 2007.

Local Services Support Grant (LSSG) – a new unringfenced grant from central government replacing the Area Based Grant.

LOBO – A "Lender Option, Borrowing Option" loan. Such a loan has a set rate for a defined period, after which point, the lender has the option of changing the rate. If that option is actioned the borrower then has the option to either accept the new rate or repay the loan.

M

Minimum Revenue Provision - The minimum amount which must be charged to a Council's revenue account each year and set aside as provision for repayment of debt, as required by the Local Government Act 2003. For assets funded form unsupported borrowing this must be a "prudent" amount.

N

Net Book Value – The amount at which fixed assets are included in the balance sheet.

Net Debt – The Council's borrowings less cash investments.

New Homes Bonus Grant – A general grant from 2012/13 that is linked to the growth in the number of properties available for occupation either from a new home or an empty home brought back into use.

NNDR – National Non Domestic Rates, a national tax collected on a local level formally known as business rates.

Non Current Assets – assets, primarily land and buildings, that have an asset life of over one year and are not used for trading purposes.

Non Distributed Cost –a category within the Council's cost of services that represents past service costs (see below) and other costs that have not been attributed to specific services.

O

Operating Lease – An operating lease is a lease other than a finance lease (please see above). The future obligations relating to operating leases are disclosed to provide the reader with an estimate of the outstanding un discharged obligations in relation to such leases.

P

Past Service Cost – The increase in the present value of a defined benefit pension scheme, as a result of improvements to, retirement benefits.

PFI - Private Finance Initiative – A method of using private investment to fund public sector schemes often supported by central government. The private sector typically builds an asset such as a school and then charges the Council over a period of typically 25 years to use and pay for the asset.

Post Balance Sheet Events – Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed.

Prior Period Adjustments – Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements.

Precept - A levy made by one statutory body on another to meet the net cost of its services.

Precepting Body – the statutory body that makes a "precept" on a Council that is responsible for collecting Council Tax in an area. Town and parish Councils are classified as a Minor Precepting body which means they precept their tax requirement on the Council who then include that amount in their precept.

Projected unit method (Pensions costs) – an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

Property, Plant & Equipment – a category of non current assets that show the carrying value of the Council's operational assets.

Provisions - amounts set aside for the purposes of providing for any liability or loss which is likely or certain to be incurred but is uncertain as to the amount or the date on which it will arise, e.g., bad debts.

Prudential Code – The CIPFA Prudential Code for Capital Finance in Local Authorities which is the guidance applicable from April 2004 for the greater freedom for Councils to borrow to fund capital investment (under the Local Government Act 2003). This Code requires the Council to set and monitor a suite of Prudential Indicators, including its Affordable Borrowing Limit, and establish its policy for using the new freedoms.

PWLB – see Borrowing

R

Related Party Transaction – Is the transfer of assets or liabilities, or the provision of services to or for a related party, irrespective of whether a charge is made.

Relative Needs Formula (RNF) - the notional amount of Torbay Council's "need" for funding that the DCLG has assessed Torbay Council as required to spend on its revenue activities within a financial year. Central Government funding from Revenue Support grant and National Non Domestic rates are based on this figure.

REFCUS – Revenue Expenditure Funded from Capital Under Statute. This represents expenditure that qualifies as capital for the purposes of government controls, but does not result in the acquisition, creation or enhancement of a tangible fixed asset. As a result the expenditure in this category and related grants or contributions are reported as revenue income and expenditure.

Retirement Benefits – All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Reserves – are available for meeting general and future expenditure, for example, capital expenditure on new projects or unforeseen occurrences. Reserves may also be used to smooth the cost of certain activities over a number of years, e.g., crematoria replacement.

Revaluation Reserve – this reserve reflects the accumulated differences in a fixed assets current value compared to its historical cost. The balance on this account when introduced as at 1st April 2007 was set at zero.

Revenue Contribution to Capital Outlay - the financing of capital expenditure, directly funded from revenue or reserves, rather than from borrowing or other sources.

Revenue Expenditure - expenditure on day-to-day expenses consisting mainly of employee costs, the running expenses of buildings and equipment and capital financing costs.

Revenue Support Grant – a General Government Grant funded from national taxation to support the Council's net expenditure.

S

Scheme Liabilities – Money due on a defined benefit scheme due after the valuation date.

Supported Borrowing – the amount of Council borrowing towards which the Government provides financial support through the annual Revenue Support Grant

T

TEDC – Torbay Economic Development Company Ltd. A subsidiary of Torbay Council

Total cost – the actual cost of services reflects all of the direct, indirect and overhead costs that have been incurred in providing the service, even where the expenditure is not under the control of the service's chief officer.

U

Unfunded Pension Liabilities – these are pension costs arising from additional service awarded by a Council on a discretionary basis.

Unsupported (or Prudential) Borrowing – any borrowing the Council undertakes that is above and beyond the level of Supported Borrowing which the Government helps to fund and which therefore the Council has to fund completely from its own resources.

Usable Reserves – a heading that reflects the Council's reserves that can be used for supporting service delivery including capital expenditure in the future.

Unusable Reserves – a heading that reflects the Council's reserves that can not be used for supporting services. These tend to be the result of notional accounting entries such as those that reflect previous capital financing, asset revaluations and the pension reserve.

devon audit partnership

Internal Audit Report

Follow Up Report on Areas Requiring Improvement

Torbay Council

August 2013

Restricted

Auditing for achievement

FOLLOW UP REPORT ON AREAS REQUIRING IMPROVEMENT

1. INTRODUCTION

1.1 At the June Audit committee members were provided with the Annual Internal Audit report for the Council. Appendix 2 of that report provided a summary of the audits undertaken during 2012/13, along with our assurance opinion. Where a “high” or “good” standard of audit opinion was been provided we confirmed that, overall, sound controls were in place to mitigate exposure to risks identified; where an opinion of “improvement required” was provided then issues were identified during the audit process that required attention. We provided a summary of some of the key issues reported that were being addressed by management and pointed out that we were content that management were appropriately addressing these issues.

1.2 Members discussed and accepted the report; however, members at the other partner organisations of the Devon Audit Partnership have found it beneficial to receive a report on progress on the “improvement required” areas highlighted in Appendix 2 to the report.

1.3 As part of adding value and to ensure a consistency service across all partners, Devon Audit Partnership has completed follow up reviews to provide updated assurance to members. The results from this process are contained in this report at Appendix 1.

2. PROCESS

2.1 For each service area where an overall audit opinion of “improvements required” was provided at the end of 2012/13 we completed a follow up review. The follow up review was undertaken to provide assurance to management and those charged with governance, that the agreed actions identified at our initial audit visit had been implemented, or suitable progress is being made to address the areas of concern.

2.2 Our approach was to initially write to the appropriate service manager to obtain an update on progress being made against agreed audit recommendations. The level of assurance we requested was dependant upon the priority of the agreed recommendation.

2.3 For recommendations of "low" priority we required written confirmation that the action had been enacted upon, or an update on the progress being made.

2.4 For "medium" priority recommendations we required written confirmation that the action has been enacted upon, or an update on the progress being made, plus some evidence to support this. For example, if the recommendation was for a monthly imprest reconciliation to be produced and signed as correct, then a copy of the most recent reconciliation was required.

2.5 For "high" priority recommendations we required written confirmation that the action had been enacted upon, or an update on the progress being made, plus some evidence to support this (as above) plus, and depending upon the nature of the recommendation, we considered a physical visit to confirm that the recommendation was operating as expected and that the identified risk had been reduced to an acceptable level.

2.6 Following the completion of our review we considered the progress made against of the agreed recommendations. This then enabled us to reconsider our assurance opinion against each of the risk areas identified, and has enabled us to reconsider our overall assurance opinion enabling an updated opinion to be provided where appropriate.

2.7 It should be noted that this updated opinion is based upon the assumption that systems and controls as previously identified at the original audit remain in operation and are being complied with in practice. The purpose of our follow up exercise has not been to retest the operation of those previously assessed controls, but to consider how management have responded to the agreed action plans following our previous work.

3 FINDINGS

3.1 Overall we can report that progress is being made against the agreed recommendations following our initial audit and this is shown in the direction of travel in appendix 1 to this report. A significant number of opinions remain unchanged at this time although this does not necessarily reflect lack of action.

3.2 It should be noted that in a number of instances action is being taken to address the issues identified, but this is ongoing and therefore we have been unable to form a new overall assurance opinion. It is acknowledged that the need to make changes to some processes can take time to achieve, and as a consequence not all recommendations have been completed, but this is as expected.

3.3 In some instances we were unable to obtain full responses from the service area due to availability of staff; we will ensure that once staff have returned that we complete the follow up process, and confirm that the service areas are on track to implement agreed recommendations. Any areas where issues or concerns are noted will be flagged to senior management for further consideration and resolution.

3.4 Other agreed actions have not been implemented for a variety reasons including other work priorities resulting from changes in the service area. We shall work with management in determining revised implementation dates to ensure that actions are taken as promptly as is possible to address the risk identified.

3.5 During our initial audit work we have made reference to areas where risk exists; however in some cases it is either not economically appropriate to address this risk, or technical solutions are not yet available. In such cases management agree to accept this risk, and use other monitoring arrangements to ensure that the risk is kept to a minimum. In such cases we are unable to provide an improved audit opinion, although we fully recognise that the risk is identified, managed and management will resolve the issue as and when opportunities arise.

3.6 Appendix 1 of this report set out the audits at the end of 2012/13 which were identified as “improvements required”. The appendix shows the current (updated) assurance opinion following our follow up work, and a “direction of travel”. We have also provided some more detailed commentary on progress being made.

4 CONCLUSION

4.1 Overall we conclude that progress is being made against the agreed audit recommendations. Improved assurance opinions have been provided in some areas, and the direction of travel is showing as improving in the majority of areas (see Appendix 1); this should provide assurance to those charged with governance.

4.2 We would like to acknowledge and offer our thanks to all those who have assisted with this process. We understand that the work was undertaken at a traditionally difficult time for management (due to the summer holiday season) and their help in providing the information for this review is appreciated.

Robert Hutchins
Head of Devon Audit Partnership
September 2013

Appendix 1

<u>Table to show updated Audit Assurance Opinion after completion of follow up work to end August 2013</u>

Audit Area	Audit Assurance Opinion as at 31 May 2013	Updated Audit Assurance Opinion as at 31 August 2013	Direction of Travel	Commentary
Adults Services and Resources - IT audit				
IT IS Strategy 2011/12	Improvements required	Improvements required	↑	The key major components of an updated IS Strategy have already been correctly identified, but final completion of a fully documented formal IS Strategy is still dependent on finalising confirmation of available future funding and staff resource
Procurement 2011/12	Improvements required	Improvements required	↑	Positive progress has been made since the 2011/12 audit review. This will be followed up in 2013/14 with additional departmental testing, as agreed in the report. The direction of travel therefore is upwards, although the assurance opinion remains as ‘Improvements required’.
Comino (Civica) 2012/13	Improvements required	Improvements Required	↑	Positive progress has been made, therefore the direction of travel is upwards, however the assurance opinion remains as ‘improvements required’ due to the risks that still remain. Progress has been made against a number of the recommendations made, and the Civica Support Team (now the Public Access Channel and Systems – PACS team) have made many operational changes to more effectively manage the system. There are a number of recommendations that are reliant upon product updates from the supplier and awaiting the next upgrade to the system. Despite progress there is a real risk to the organisation in relation to key reliance on the system for many aspects of the organisations service delivery.

Audit Area	Audit Assurance Opinion as at 31 May 2013	Updated Audit Assurance Opinion as at 31 August 2013	Direction of Travel	Commentary
End User Computing 2012/13	Fundamental Weaknesses	Improvements Required	⇧	Positive progress has been made through the formulation of a working group (IT, IG and Audit) to develop the EUC framework and EUC policy (which will sit within the existing DISP policy framework). The policy has been drafted and a tool / methodology for identifying and categorising EUC's against defined criteria is nearing development completion. The intention is to incorporate this into the requirements and responsibilities of the Information Asset processes. The direction of travel is upwards, and the assurance opinion has been moved to Improvements Required based upon the action taken to date and the assumption that this will be rolled out within the organisation as intended.
PCI Compliance Project	Improvements required	Improvements required	⇧	Whilst full PCI compliance has not yet been obtained, significant progress has been made in overcoming a number of outstanding issues, such as data protection issues arising as a result of voice recording of credit card numbers. In this respect, the Authority is now in the process of finalising a contract with a third party contractor. It is anticipated that full PCI compliance will have been obtained by or before December 2013.
Directorate: Children's Services				
Section 17 Payments 11/12	Improvements required	Improvements required	⇨	We have been unable to meet with management within the Audit Committee timescales. We have therefore not been able to ascertain the progress in relation to the recommendations made, and cannot provide an updated audit assurance opinion or direction of travel at this time.

Audit Area	Audit Assurance Opinion as at 31 May 2013	Updated Audit Assurance Opinion as at 31 August 2013	Direction of Travel	Commentary
Use of Agency Staff 11/12	Improvements Required	Improvements required	⇨	We have been unable to meet with management within the Audit Committee timescales. We have therefore not been able to ascertain the progress in relation to the recommendations made, and cannot provide an updated audit assurance opinion or direction of travel at this time.
Social Care Transport 11/12	Improvements Required	Improvements required	⇨	We have been unable to meet with management within the Audit Committee timescales. We have therefore not been able to ascertain the progress in relation to the recommendations made, and cannot provide an updated audit assurance opinion or direction of travel at this time.
Housing Needs & Homelessness 11/12	Improvements Required	Improvements Required	⇧	Management have responded positively to the audit and are in the process of taking appropriate action to address the issues identified, as shown by the direction of travel. Although there has been substantial progress made in terms of implementing recommendations, there are still a number which remain outstanding or are still being implemented, hence the updated assurance opinion remains as 'Improvements Required'.
Early Year Services - Family Group Conferencing 12/13	Improvements Required	Improvements Required	⇨	We have been unable to meet with management within the Audit Committee timescales. We have therefore not been able to ascertain the progress in relation to the recommendations made, and cannot provide an updated audit assurance opinion or direction of travel at this time.

Audit Area	Audit Assurance Opinion as at 31 May 2013	Updated Audit Assurance Opinion as at 31 August 2013	Direction of Travel	Commentary
Directorate: Place & Resources				
IBS Open Systems Admin 11/12	Improvements Required	Good Standard	⇧	A subsequent audit was undertaken in 12/13 resulting in the assurance opinion moving to 'Good Standard'. The 12/13 executive summary is detailed below:- Progress continues to be made in improving the system management arrangements for the Open Revenues system. The system has been kept current and fit for purpose and the team show a willingness to address the remaining weaknesses identified. Although there are still some areas that need to be addressed from the previous audit, the team have made significant progress in implementing the majority of recommendations made last year. There remain issues relating to the management of access rights, in particular in relation to the inadequate segregation of duty which impacts the overall assurance opinion that can be provided; this is reported annually and the associated risks accepted by management due to the operational need and the efficiency advantages achieved through generic working practices.
Benefits 11/12	Improvements Required	Good Standard	⇧	A subsequent audit was undertaken in 12/13 resulting in the assurance opinion moving to 'Good Standard'. The 12/13 Executive Summary is detailed below:- The benefits department is generally performing effectively, and we have made a smaller number of recommendations than in

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				2011-12, which is reflected in the improvement in the overall level of assurance to 'Good Standard'. Only two errors were identified in relation to the processing of benefit claims, and neither were symptomatic of underlying issues such as poorly trained staff, weak quality control, etc. It is pleasing to note that the majority of performance indicators show that the department is performing well, with the main area of concern being levels and recovery of overpayments. We understand that measures have been put in place to improve performance in this area, however there could be transferable good practice in place at other authorities that the Council is not currently identifying. Specific testing of overpayment recovery did not identify any significant issues, however we have concerns in relation to the current write-off process, consequently, assurance cannot be provided that all write-offs have been properly authorised during this financial year. The Quality Assurance process is generally robust, although recommendations have been made to ensure the process is properly adhered to in all cases; and payments themselves are well controlled. Although there is a lack of proactive fraud investigation work undertaken, a review of reactive fraud investigations found that work undertaken is proportionate, effective, and in line with Council procedures. Cases have been appropriately prioritised, and there is clear evidence on file of both the investigation and the outcome.

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Payroll 11/12 & 12/13	Improvements Required	Improvements Required	⇧	A number of recommendations remain outstanding however some of these are not due to be actioned until the later part of 2013 or are linked to the implementation of the new system in 13/14. There are a significant number of recommendations where responses from Management suggest they have been actioned however we have been unable to obtain evidence to verify this at this time. The overall assurance opinion remains as 'Improvements Required' however as indicated by the arrow progress is being made in a number of areas.
Debtors 11/12	Improvements Required	Good Standard	⇧	A subsequent audit was undertaken in 12/13 which resulted in an assurance opinion moving to 'Good Standard'. The 12/13 Executive Summary is detailed below:- Since the establishment of the dedicated Debtors Administration role, there has been ongoing improvement in the operation of the Debtors function. Progress has either been made against previous recommendations, or management have accepted the risks of not taking action to address control weaknesses and non compliance issues identified, due to the presence of mitigating controls and for customer service / business practicality reasons. The system is well managed centrally and users are effectively supported by comprehensive procedural and training provision. Certain elements of the debtor process cannot be controlled centrally or are not controlled through system settings / restrictions and therefore reliance is placed on users to comply with procedural expectations. Limited central resources prevent

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				the enforcement of compliance; hence the annual audit highlights incidents of non-compliance. The need for increased reporting and monitoring at senior management / member level in the current economic climate continues to be reported and is highlighted in the findings.
Creditors 11/12	Improvements required	Improvements required	↑	A subsequent audit was undertaken in 12/13 which resulted in the assurance opinion remaining as ‘Improvements Required’. The direction of travel represents the progress in addressing the control weaknesses. The 12/13 Executive Summary is detailed below:- The processing procedures and practices are robust and a high degree of accuracy continues to be achieved leading to data quality, correct payments and the achievement of performance targets. It is pleasing to acknowledge that again the audit has not identified any processing errors or any new control issues. Although outside the direct control of the Payments Team, the issues relating to the weaknesses in the cheque printing control environment and the lack of segregation of duty in the access rights for CHAPS have impacted on the assurance opinion that can be provided in relation to the generation of output. Weaknesses exist in the control environment in relation to the operation of payment authorisation controls. Whilst the associated risks have previously been accepted by management, it is acknowledged that progress has been made in the project to automate manual processing that combines effective authorisation controls.

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CTAX & NNDR 11/12	Improvements required	Improvements required	⇧	A subsequent audit was undertaken in 12/13 which resulted in the assurance opinion remaining as ‘Improvements Required’. The direction of travel represents the progress made in addressing the control weaknesses. The 12/13 Executive Summary is detailed below:- The team have continued to maintain accuracy and control over property valuations with amendments to billing adequately supported. The established effective systems in place have been maintained and the requirements of the External Auditors key controls, as detailed in Section 6, have continued to be met. Progress has been made in addressing a number of control weaknesses previously identified with the improvements in the control environment demonstrating a direction of travel towards an overall 'Good Standard' assurance opinion. Recommendations have been made to embed and maintain the new processes that were implemented in 2012/13, to complete the on-going development of procedural and training documentation, and to make further enhancements to existing processes and controls. Generic working practices impact the adequacy of segregation of duty and system access controls, the risks associated with these control weaknesses have been accepted by management due to the mitigating controls and benefits achieved through generic working.

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Human Resources 11/12	Improvements required	Improvements required	⇧	A significant number of recommendations remain outstanding or are in progress; however some of these are not due to be actioned until the later part of 2013 or are linked to the implementation of the new system in 13/14. There are also a number of recommendations where initial responses from management indicate that they have been actioned; however we have been unable to obtain evidence to confirm this at this time. Hence the overall assurance opinion remains unchanged at this time, but the direction of travel reflects that action is being taken based on the progress indicated by the responsible Manager.
Performance incl, Payments by Results 11/12	Improvements Required	Improvements Required	⇧	The findings and recommendations were received positively by central management which is reflected in the direction of travel shown. Management have advised that central government is still developing its approach. This will also have a significant influence in the approach required and adopted by the council. Implementation is devolved to the responsible areas and central management have been unable to ascertain progress in relation to the recommendations made within the audit committee timescales, and therefore we cannot provide an updated audit assurance opinion.

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Business Change (incl Transformation Agenda, PIP & PPPP) 2012/13	Improvements Required	Good Standard	⇧	The previous Transformation programme including PIP has now been superseded by the Business Change programme that has focused initially on the on-going Office Rationalisation Project (CCRP / ORP). The CCRP / ORP report concluded that although controls in place at the outset of the project were deemed as ‘Improvements Required’, the subsequent handover of control and oversight to the Business Change team has raised this assurance opinion to ‘Good Standard’. Disposal of assets linked to the ORP is due to be reviewed later in the year, as part of the 2013/14 audit plan.
Environment Project Involvement 2012/13	Improvements Required	Improvements Required	⇨	An audit of the Torbay Coast and Countryside Trust has been carried out, that has identified that Board representation has been strengthened through the appointment of a new Chairman, and other initiatives are in place that will strengthen the viability and robustness of commercial on-going commercial enterprises. The draft report was only presented to the Coast and Countryside Board in August 2013 and therefore the assurance opinion remains unchanged at this time. Initial indications are that the Trust have responded positively to the recommendations and an action plan has been formulated.

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Torbay Harbours Authority (System Admin) 12/13	Improvements Required	Improvements Required	↑	As a result of the findings contained within the 12/13 audit report a decision has been made to replace the current system as there were a number of areas where the system was failing to meet mandatory requirements. A procurement exercise has been undertaken and the latest submissions will be evaluated in early September and the aim is to start implementing the new system late September 2013. The implementation has been split into 2 phases: Phase 1 to replicate the existing system, to implement the core system and be able to produce the Annual Invoices for mid Jan – Feb 2014 Phase 2 to introduce customer self service functionality – September 2014
Economic Development Company – Cockington Court 12/13	Improvements Required	Good Standard	↑	A number of initiatives have now been put in place, including the development of an updated business plan, and other initiatives that have given rise to a revised Final Internal Audit Report Audit Assurance Opinion of 'Good Standard'.
Directorate: Public Health				
Emergency Planning 11/12	Improvements Required	Improvements Required	↑	The report was divided into two sections, Emergency Planning and Business Continuity. The Emergency planning processes were assessed as being 'good standard', however the Business Continuity processes were 'fundamental weaknesses', hence an overall opinion given of 'Improvements Required'. Progress has been made hence the direction of travel given. In relation to Emergency planning, there have been operational

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				actions such as progress on the Emergency Response checklist; cost estimates provided for the new emergency centre; workshops for members; and benchmarking survey results obtained for analysis. However critical elements such as a formal testing of the Emergency Plans have yet to be undertaken. In regard to Business Continuity, again, progress has been made through review and reporting of the status of the formulation of the critical BCP's; a checklist has been produced to enable consistent review of the plan contents; and monitoring of plans through SPAR has also been implemented. However despite the plans progressing there are still a large number that have yet to be fully defined. Once they have been defined they must be approved and formally tested to ensure they are robust and fully embedded.