Financial Services

DRAFT

STATEMENT OF ACCOUNTS

2010/11

AUTHORISED FOR ISSUE 30TH JUNE 2011

UNAUDITED

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

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OPERATING AND FINANCIAL REVIEW 2010/11

Welcome

Welcome to Torbay Council's statement of accounts for the 2010/11 financial year ending 31st March 2011. 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 financial year and its balance sheet as at 31st March 2011 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 2010/11 and in future years.

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 134,000 of which 74,000 are of working age.

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

http://www.torbay.gov.uk/index/council/financial_services/budgetdigest.htm

Torbay Council has an elected Mayor as well as 36 elected ward councillors. The elected Mayor in 2010/11 was Nick Bye who was independent of any political party. The majority of the 36 ward councillors were Conservative party candidates. The latest full Council and Mayoral elections were in May 2011.

Significant Events in 2010/11

On a national level the May 2010 election resulted in a Coalition Government who introduced an emergency budget in June 2010 which resulted in an in year funding cut for Torbay of £1m.

There were a number of new government initiatives some of which had an impact on the Council in 2010/11. One of these initiatives was the encouragement for schools to seek Academy status. In Torbay, by 31st March 2011, 3 schools had converted to Academies and are now fully independent of the Council.

The Council also continued to look for improved ways for delivering services. During 2010/11 the Council established a Joint Venture Company with May Gurney called TOR2 to provide a range of services including waste collection to the Council which started operating in July 2010. The Council owns 20% of the new company.

In October 2010 the English Riviera Tourist Board Company started operating to provide tourism services. The Council owns 100% of the new company.

The Council also started planning towards reduced funding levels from Central Government in future financial years as announced in October in the Comprehensive Spending Review. As a result in February 2011 the Chief Executive proposed a new (reduced) management structure for the management of the Council, operational from 2011.

The Council, in partnership with Devon and Plymouth City Councils have selected a contractor for the 25 year PFI contract for the provision and operation of an Energy From Waste facility to be built in Plymouth for the disposal on non recyclable waste.

Purpose of Accounts

The purpose of these accounts is to present to the reader a detailed overview of the Council's financial position as at the end of March 2011 giving information as to the Council's assets and liabilities at a point in time and detail on the Council's financial performance during 2010/11. The format of these accounts is this Operating Review followed by the Core Financial Statements for 2010/11 then the supporting notes to those core financial statements.

The form and content of these accounts is highly prescribed, (by the CIPFA Code of Practice), and is produced on an IFRS basis (International Financial Reporting Standards). 2010/11 is the first year that the Accounts have been presented on an IFRS basis. As a result the prior year – 2009/10 has been restated and, where appropriate, the restated balances as at 1st April 2009 are shown as this date was the "date of transition" to IFRS for the Council.

External Audit and Public Inspection of the Accounts

These accounts are subject to a detailed audit by the Council's external auditor. Under the Accounts and Audit Regulations the accounts, with its supporting documents, are available for public inspection for a limited period. 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 2010/11 statement has been included within these published accounts but are not part of the accounts and is outside the external auditor's opinion.

Rounding

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

Overview of Financial Performance

The Council's financial performance in 2010/11 resulted in a contribution at the end of the year of £0.3 million to its general fund reserve. This was the underspend for the year after carry forwards and reserve movements. This was a result of careful financial management within the Council to ensure that the Council stayed within its 2010/11 budget and for this officers and members should be commended.

The Council's gross expenditure in the year was in the region of £400m for revenue (day to day) spend and £44 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 a number of non cash items such as depreciation and pension assumptions and an earlier recognition of grants, based on conditions attached to the grant rather than matching the grant to expenditure, which should then allow the Council's accounts to be comparable to other sector accounts. The total surplus for this account for 2010/11 is a surplus of £85m. The key reason for this surplus is the decrease in the Council's pension fund liability which resulted in two large (one off) credits of £36m and £62m reflecting changes in actuarial assumptions as to the overall pension liability including the move to base pension increases on the (usually) lower CPI instead of RPI. Conversely the account includes impairment charges of £13m relating primarily to the revaluation of Brixham Regeneration development including Brixham Fish Quay and Paignton Library hub based on fair values relating to the operational use and rental streams on those assets.

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 2010/11. Within this is the reversal of a number of accounting entries made under IFRS that appear in the Council's I&E such as depreciation and pension assumptions, which are allowed, under statute, to be reversed in this statement to ensure that these entries do not have a "cash" impact on the Council Tax payer. After these adjustments the Council's net underspend for the year was £0.3 million. This statement shows that the Council's usable reserves had a small increase with an increase in both earmarked and general fund reserves offset by use of capital reserves to fund capital expenditure in year.

The Council also spent £44 million on capital projects including schemes such as the rebuild of Torquay Community College, Paignton Library Hub, Royal Terrace Gardens/Rock Walk stabilisation, Tweenaway Cross and Cockington Court.

On the balance sheet there were some significant changes in year. The major change was a £89 million reduction in the Council's pension liability for the year primarily due to changes arising from the change in future pension increases being linked to the lower CPI compared to RPI and changes in other actuarial assumptions such as higher mortality rates

There were changes in the value of the Council's non current assets (fixed assets) from the impact of expenditure in the year on these assets of £30 million. The three academy schools that left the Council's control during 2010/11 had no impact on the balance sheet as all three were previously foundation schools.

The Council increased its long term borrowing by £10 million during the year and in October 2010 converted £20 million of liability to Devon County Council in relation to local government reorganisation in 1998 to PWLB borrowing.

In addition to the Council general fund reserve being increased by £0.3 million to £4.0 million, which is equivalent to 3.2% of the Council's 2011/12 net revenue budget, there was an overall increase in the level of earmarked reserves which included the establishment of the Comprehensive Spending Review Reserve of £3.5 million during 2010/11 to help meet the financial challenges of the Coalition Government's reducing the level of funding for the Council over the next four years – potentially up to a 30% reduction by 2014/15.

Overall the Council's balance sheet was significantly stronger than the previous year primarily due to the £89 million reduction in the Council's pension liability. In addition expenditure on non current assets exceeded any increase in borrowing. The Council's cash and investment levels also increased in the year although this is short term as the cash will be used in the medium term as capital projects and reserves are used.

<u>Forward Financial look</u>

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 2011 which set a target of reducing Council funding by up to 30% over four years 2011/12 to 2014/15.
>
> Ongoing impact of the economic conditions with increased 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 children social care plus changes in pupil numbers throughout the area changing demand for school places.
>
> The Council has a Mayoral and full Council election in May 2011 which could result in changes in Council priorities which will impact on services.
>
> The Government is considering significant reform of Council funding for 2013/14 onwards. As a

result the Council has not been notified funding allocations for these years. Changes being considered include Council's retaining NNDR income locally rather than passing the money into a national pool for allocation based on relative need and a complete review of the formula for allocating funding to Councils. This review could have a significant impact on future Council funding.

The Coalition Government is introducing 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.

Reform of the Benefit System which included the phased introduction of the Universal Credit, 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.

Reform of the NHS. It has been announced that Primary Care Trusts are to be disbanded. In Torbay this is the Torbay Care Trust who the Council currently commission to provide adult social care. In addition the public health function of primary care trusts is to transfer to Council's for 2012/13.

It is proposed that the Audit Commission, who is the Council's current appointed auditor will be abolished and Councils from 2012/13 will appoint their own external auditors. This change will be supported by an enhanced, more independent, role of Audit Committees.

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

Summary of spend to budget in year

Revenue Budget:

Funding

In February 2010 the Council set a budget for 2010/11 of £124m, which was to be funded as follows:

	2009/10	**2010/11**
Net Budget Requirement	£124m	**£134m ***
Area Based Grant	(£8m)	**(£13m) ***
NNDR (from national pool)	(£46m)	**(£52m)**
Revenue Support Grant	(£11m)	**(£7m)**
Council Tax Payers	(£59m)	**(£62m)**
Band D Council Tax – Torbay Only	£1,227.40	**£1,261.17 ****
Band D Council Tax – including Police, Fire and Brixham Town Council	£1,473.45	**£1,517.92**

* As a result of the Coalition Government's emergency budget in June 2010 the Council budget and funding from the Area Based Grant were reduced in year by £1m

**The increase in the Band D Council tax for Torbay was a 2.75% year on year increase.

Expenditure

Council in July 2011 is due to receive a revenue outturn report detailing income and expenditure in year and reasons for any variances which can be obtained from the Council's website. The summary of budget and expenditure by service in 2010/11 as presented in that report is shown below.

Council Services	Revised Budget A	Actual Spend B	Carry Forward to 2011/2012 C	Outturn (D) B+C	Net Over /(Under) spend D-A
	£'000	£'000	£'000	£'000	£'000
Environment					
Residents and Visitors	10,927	10,608	171	10,779	(148)
Waste	8,829	8,834	38	8,872	43
Spatial Planning	4,931	4,327	14	4,341	(590)
Torbay Development Agency	5,042	4,633	290	4,923	(119)
Community Safety	1,778	1,560	30	1,590	(188)
Marine	0	0	0	0	0
	31,507	**29,962**	**543**	**30,505**	**(1,002)**
People					
Adult Social Care	42,103	42,028	0	42,028	(75)
Children's	23,071	23,264	0	23,264	193
	65,174	**65,292**	**0**	**65,292**	**118**
Corporate Support					
Governance	9,002	8,742	0	8,742	(260)
Business Planning	3,109	3,085	0	3,085	(24)
Communities - Housing Services	8,311	8,281	35	8,316	5
	20,422	**20,108**	**35**	**20,143**	**(279)**
Operational Support					
Customer Contact	1,836	1,660	0	1,660	(176)
Finance	9,136	9,112	0	9,112	(24)
Human Resources	839	834	0	834	(5)

Information Technology	2,936	2,908	0	2,908	(28)
Legal and Procurement	1,131	1,176	0	1,176	45
	15,878	**15,690**	**0**	**15,690**	**(188)**
Transfer to Earmarked Corporate Reserves	**0**	**1,076**	**0**	**1,076**	**1,076**
Total	**132,981**	**132,128**	**578**	**132,706**	**(275)**

Capital Budget

Council in July 2011 is due to receive 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 £44m on capital expenditure in 2010/11 and this funding and expenditure are shown in the two tables below.

	Latest Budget £m	**Outturn £m**	**Variation £m**
Borrowing – *of which*	12.3	12.3	0
Supported (by Government funding)	*4.7*	*4.2*	*(0.5)*
Unsupported (Prudential)	*7.6*	*8.1*	*0.5*
Grants	29.2	28.0	(1.2)
Other Contributions	1.1	0.9	(0.2)
Revenue & Reserves	1.4	2.2	0.8
Capital Receipts	3.3	0.4	(2.9)
Total Funding	**47.3**	**43.8**	**(3.5)**

Expenditure

The expenditure in the year of £44 million by the four "themes" that the Council reports on for internal reporting are as follows:

	Latest Budget	Outturn	Spent	Variation
	£m	**£m**	%	**£m**
Pride in the Bay	12.3	12.2	99	(0.1)
New Economy	7.1	6.5	92	(0.6)
Learning & Skills	22.3	21.0	94	(1.3)
Stronger Communities	2.2	1.8	82	(0.4)
Corporate Health	3.4	2.3	68	(1.1)
TOTALS	**47.3**	**43.8**	**93**	**(3.5)**

Material Assets or Liabilities acquired

Assets:

The Council spent £44m on capital assets of which £30m was added to the value of the Council's non current assets. The balance of £14m was spent on capital expenditure on assets the Council does not recognise as its own such as Foundation or Voluntary Aided schools.

A summary of capital expenditure in 2010/11 is shown below:

Scheme	Spend 2010/11 £m
Office Accommodation Project	1.7
Paignton Library Hub	2.5
Royal Terrace Gardens/Rock Walk	1.9
Cockington Court	2.0
Torquay Community College – Rebuild	7.4
Paignton College – Sports Hub	1.7
My Place – Parkfield	1.9
Other Schools/Education	9.9
Tweenaway Cross Junction Improvements	2.5
Other Transport	3.6
Waste (TOR2)	1.1

Brixham Regeneration	4.2
Disabled Facility & Renovation Grants	0.9
Affordable Housing	0.6
Other Schemes	1.9
Total	**43.8**

Liabilities

No significant liabilities were acquired by the Council in 2010/11. The Council's risk for both TOR2 and English Rivera Tourism Company is limited under its ownership, although the Council does retain pension liability for the staff that transferred to TOR2 and the tourism company up to date of transfer.

Significance of Pension liability

The Council's employees can be members of the Devon County Council pension scheme. As a defined benefit scheme the Council is liability 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 to 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).

This liability as at 31st March 2011 is assessed at £77 million, a £89 million decrease form the previous year of £166 million.

This decrease is primarily due to three factors:

- a £8m reduction in liability as a result of staff transferring out of the scheme in relation to service changes to TOR2, English Riviera Tourist board and Academy schools,

- a £28m reduction in liability based on benefits accrued to date following the Coalition government's announcement to link pension increases to the (lower) CPI index rather then the RPI and

- a £50m reduction in liability as a result of changes in actuarial assumptions about the cost of future benefits including future changes in relation to CPI and other factors such as the rate of salary increases.

Explanation of any unusual costs/income

There were a number of unusual costs within the income and expenditure account in 2010/11. These include:

The majority of payments for back pay to April 2007 relating to the job evaluation process were made in 2010/11. These totalled £3.2 million and were funded from the 2010/11 budget for job evaluation costs and provisions and accruals provided for in previous years.

As a result of the 2011/12 budget process and the restructuring of the Council's senior management actual costs and a provision for future costs arising from the staffing reductions was made in 2010/11. These totalled £1.4 million and were funded from the Comprehensive Spending Review Reserve.

In 2010/11 three schools converted to Academy status. As all three schools were previously foundation schools there was no impact on the Council's balance sheet however income and expenditure for these school from date of transfer no longer forms part of the Council accounts.

The Council contract with TOR2 started in July 2010. Due to the pattern of contract payments to TOR2, set up costs and the profile of residual costs the Council still pay – such as the repayment of borrowing on vehicles & plant, there were increased costs in 2010/11 that were funded from reserves. There is estimated to be lower costs in future years which will enable reserves to be replenished.

Changes in Accounting Policies

With the introduction of International Financial Reporting Standards (IFRS) for 2010/11 accounts there has been significant changes in accounting policies, formats, terminology and presentation within these accounts compared to the 2009/10 accounts which were presented on a UKGAAP basis (United Kingdom Generally Accepted Accounting Practice). Proper Practice for Councils to follow is still provided by CIPFA but the guidance has been completely rewritten and renamed.

As part of the transition to IFRS from 1st April 2009 the comparative financial year (2009/10) has been restated to enable comparison between 2009/10 and 2010/11 so there are no changes in accounting polices between 2010/11 and the restated 2009/10 accounts.

From the Council's published 2009/10 UKGAAP accounts and 2010/11 IFRS accounts there are significant changes. Where these have a material impact these are summarised in note 1 to these accounts. The major changes are around non current assets (fixed assets) where a number of assets have been either removed or recognised on the Council's balance sheet or recategorised and then revalued as say investment properties or Assets Held for Sale. The largest change was the removal of foundation schools from the Council's balance sheet which resulted in a change of £125 million.

The Council has changed its accounting for the South Devon Link Road. In agreement with Devon County Council (as the other Council involved in the scheme) the Council will, from 2010/11, treat expenditure on the scheme until operational as REFCUS (revenue expenditure funded from capital under statute) and charged as income to the Comprehensive Income and Expenditure Account. Expenditure incurred to 31st March 2010 of £0.8m has been removed from assets under construction and charged to Income and Expenditure Account in 2010/11 and then reversed to Capital Adjustment Account through the Movement in Reserves statement. This change will ensure that Torbay Council and Devon County Council's accounting treatment are aligned.

Planned Future Developments in service delivery

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

Creation of an Economic Development Company which went live in May 2011 to provide a range of professional services to the Council and other bodies. This involved the transfer of over 70 staff and the transfer, at nil value, of a number of Council properties such as Innovation Centres, Bishop's Place, Vaughan Parade and a number of properties held for regeneration purposes.

Creation of a PFI Energy From Waste Facility in partnership with Plymouth City and Devon County Councils. This facility will be provided by the private sector but the Council's share will be recognised as a Council asset along with the relevant liability to pay the contractor for construction of the facility. The total cost of the construction of the facility is approximately £200 million and will result in an asset and long term liability for the Council when operational.

The Council has an agreement in principal to create a Local Asset Backed Vehicle (a company owned 50% by the Council and 50% by a private developer) to progress, develop and operate the major regeneration of a number of Council assets. The Council will transfer assets to the new company as its contribution while the developer will contribute the funding required. Any future profits to be split between the two owners.

Under the proposed NHS reforms primary care trusts are to be abolished. Within Torbay this generates an issue as the local primary care trust (Torbay Care Trust) is the Council's provider for Adult Social care. The future service delivery of this function will need to be established.

It is anticipated that more schools will opt for Academy status in addition to the three schools in 2010/11. Some schools have already informed the Council of their decision to transfer in 2011/12. From transfer date the Council's accounts will no longer recognise any assets/liabilities or income/expenditure in relation to those schools.

The impact of the reductions required under the Coalition Government's 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 roiling forward financial plan called The Medium Term Resource Strategy which is available on the Council website. Within that document (November 2010) there is a summary of projected revenue income and expenditure for the next four years.

	2010/11	2011/12	2012/13	2013/14	2014/15
Estimated Income	132.9	126.2	124.1	121.3	118.8
Expenditure	132.9	139.2	145.5	148.8	151.8
Estimated Funding Gap	**0**	**13.0**	**21.4**	**27.5**	**33.0**

A number of service reductions were approved as part of the 2011/12 Council budget which will impact to an extent on future service delivery. One change was the restructure from May 2011 of the Council's senior managers. This has seen the deletion of a number of posts.

The Council approved a four year capital plan in February 2011 which is available on the Council website. A summary of anticipated capital spend over the next four years is summarised below.

	2011/12	**2012/13**	**2013/14**	**2014/15**
	£'000	**£'000**	**£'000**	**£'000**
PRIDE IN THE BAY	7,303	5,440	6,970	2,605
NEW ECONOMY	2,403	0	0	0
LEARNING & SKILLS	17,627	1,000	1,000	0
STRONGER COMMUNITIES	3,593	1,318	125	0
CORPORATE HEALTH	11,116	13,049	230	0
Total	**42,042**	**20,807**	**8,325**	**2,605**

Borrowing & Investments

The Council undertakes borrowing to support its capital expenditure. As at 31st March 2011 the Council had £163 million of borrowing primarily to the Public Works Loans Board. In addition it had a long term liability of £10m to the PFI contractor for Westlands and Homelands schools.

The Council had £115m of investments at year end with a net debt position of £56 million. During 2010/11 the Council increased its borrowing by £10 million. In addition in October 2010 the Council converted £20m of debt owed to Devon County Council arising from assets transferred to Torbay in 1998 on local government reorganisation to PWLB debt. This had no impact on the Council's overall borrowing and long term liabilities.

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 decision 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:

	31/3/10 £m	**31/3/11** **£m**
Balance Sheet Values:		
External Borrowing	133	**162**
Long Term Liabilities	30	**10**
External Investments	(109)	**(116)**
Net Debt	54	**56**
Treasury Management Limits:		
Capital Financing Requirement	130	**138**
Authorised Limit	-	**224**
Operational Limit	-	**195**
Revenue Income & Expenditure:		
Investment Income	(2.7)	**(1.6)**
Interest Paid	5.2	**6.3**
Costs re long term liabilities	2.0	**1.0**
Minimum Revenue Provision (for repayment of principal)	4.1	**4.0**

The level of Council borrowing reflects the Council's capital financing requirement plus the borrowing required by the approved four year capital 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.

Significant Provisions or contingencies

The Council has provisions at year end of £3 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 staff restructuring decisions taken in 2010/11.

The Council has given a number of pension guarantees as Council staff have 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 companies the council has some exposure to risk but this is limited by guarantee.

The Council has provided a financial guarantee to other bodies – the significant being a £975k bank and loan guarantee to Torbay Coast and Countryside Trust.

Material events after reporting date

Since 31st March 2011 to the date the Chief Finance officer authorised the accounts (30th June 2011) there are a few significant events to note:

In the Council elections in May 2011 a conservative majority was elected along with a new Mayor – Gordon Oliver who is a conservative party candidate.

In April 2011 an economic development company was set up – limited by share, 100% owned by the Council, which went live in May 2011 when over 70 staff and a number of assets were transferred to the company at nil consideration

Three primary schools converted to academy status in April 2011 becoming independent of the Council.

Links to Other Financial information

The statement of accounts is a key financial document published by the Council. The council's website contains a range of financial information:

http://www.torbay.gov.uk/financial_services.

All financial reports such as monitoring reports and outturn reports are reported on a regular basis to Council Committees. All reports are available on the council website:

http://www.torbay.gov.uk/index/council/councillorsdecisions/minutesandreports.htm

The revenue and capital outturn reports that support this document *are due* to be presented to Council on 13th July 2011.

An extract of the website showing the links to the Council's financial information is shown below:

Glossary

There is a glossary at the back of these accounts 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

30th June 2011

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

Full Council Approval of the Statement of Accounts 2010/2011

I confirm that the Council completed its approval process of the Statement of Accounts 2010/2011 on the xxth September 2011 at a meeting of the Council.

Councillor xxxxxxxx

Chairman of the Council

XXth September 2011

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 2003 (last amended March 2011) is set out on pages 3 to page 143 and has been prepared in accordance with the accounting policies set out on pages 107 to 131. In my opinion it is a true and fair view of the financial position of the Council at 31st March 2011 and its income and expenditure for the year ended 31st March 2011.

The accounts are audited by the Council's External Auditor, the Audit Commission.

The Statement of Accounts 2010/11 were authorised for issue on the 30th June 2011. 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 June 2011

The Statement of Accounts 2010/11 were authorised for approval by Members and for publication on the xxth September 2011. This is also the date up to which events after the balance sheet date have been considered.

P LOOBY BA CPFA
Chief Finance Officer
Xx September 2011

External Auditor's Report

To Follow – September 2011

Core Financial Statements

Movement in Reserves Statement

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

	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 Authority Reserves £m
		Note 8	Note 25	Note 25	Note 25	Note 26	
Balance at 31 March 2009	**3.3**	**27.4**	**0.4**	**19.2**	**50.3**	**96.7**	**147.0**
Movement in reserves during 2009/10							
Surplus or (deficit) on provision of services	(16.0)	0	0	0	(16.0)	0	**(16.0)**
Other Comprehensive Expenditure and Income (In I&E Statement)	0	0	0	0	0	(41.7)	**(41.7)**
Total Comprehensive Expenditure and Income	**(16.0)**	**0**	**0**	0	(16.0)	**(41.7)**	**(57.7)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	20.0	0	0	(0.1)	19.9	(19.9)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**4.0**	**0**	**0**	**(0.1)**	3.9	**(61.6)**	**(57.7)**
Transfers to/from Earmarked Reserves (Note 8)	(3.6)	3.6	0	0	0	0	**0**
Increase/(Decrease) in 2009/10	**0.4**	**3.6**	**0**	**(0.1)**	**3.9**	**(61.6)**	**(57.7)**

	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 Authority Reserves £m
		Note 8	Note 25	Note 25	Note 25	Note 26	
Balance at 31 March 2010 carried forward	**3.7**	**31.0**	**0.4**	**19.1**	**54.2**	**35.1**	**89.3**
<u>Movement in Reserves during 2010/11</u>							
Surplus or (deficit) on provision of services	24.4	-	-	-	24.4	-	**24.4**
Other Comprehensive Expenditure and Income (in I&E Statement)	-	-	-	-	**-**	60.9	**60.9**
Total Comprehensive Expenditure and Income	**24.4**	**-**	**-**	**-**	**24.4**	**60.9**	**85.3**
Adjustments between accounting basis & funding basis under regulations (Note 7)	(22.3)	-	0.1	(2.1)	**(24.3)**	24.3	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**2.1**	**-**	**0.1**	**(2.1)**	**0.1**	**85.2**	**85.3**
Transfers to/from Earmarked Reserves (Note 8)	(1.8)	1.8	-	**0**	**-**	-	**-**
Increase/(Decrease) in Year	**0.3**	**1.8**	**0.1**	**(2.1)**	**0.1**	**85.2**	**85.3**
Balance at 31 March 2011 carried forward	**4.0**	**32.8**	**0.5**	**17.0**	**54.3**	**120.3**	**174.6**

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.

2009/2010 Gross Exp £m	2009/2010 Gross Income £m	2009/2010 Net Exp £m		2010/11 Gross Exp £m	2010/11 Gross Income £m	2010/11 Net Exp £m
18.3	(16.3)	2.0	Central services to the public	19.5	(17.4)	**2.1**
38.0	(14.4)	23.6	Cultural, environmental, regulatory and planning services	46.4	(12.1)	**34.3**
141.5	(114.5)	27.0	Education and children's services	156.5	(127.7)	**28.8**
18.6	(8.9)	9.7	Highways and transport services	27.0	(9.8)	**17.2**
68.5	(66.1)	2.4	Housing services	72.8	(65.1)	**7.7**
45.9	(1.8)	44.1	Adult social care	47.0	(2.0)	**45.0**
1.0	0	1.0	Exceptional costs	2.9	0	**2.9**
6.9	(0.4)	6.5	Corporate and democratic core	5.0	(1.6)	**3.4**
1.1	0	1.1	Non distributed costs	1.4	(36.8)	**(35.4)**
339.8	**(222.4)**	**117.4**	**Cost Of Services**	**378.5**	**(272.5)**	**106.0**
38.6	(2.4)	36.2	Other Operating Expenditure (Note 9)	0.7	(0.8)	**(0.1)**
24.3	(12.3)	12.0	Financing and Investment Income and Expenditure (Note 10)	25.2	(15.0)	**10.2**
0	(149.6)	(149.6)	Taxation and Non-Specific Grant Income (Note 11)	0	(140.5)	**(140.5)**
		16.0	**(Surplus) or Deficit on Provision of Services**			**(24.4)**
		(4.3)	Surplus or deficit on revaluation of non current assets			**0.6**
		0	Surplus or deficit on revaluation of available for sale financial assets			**0**
		46.1	Actuarial gains / losses on pension assets / liabilities			**(61.5)**
		41.8	**Other Comprehensive Income and Expenditure**			**(60.9)**
		57.8	**Total Comprehensive Income and Expenditure**			**(85.3)**

Balance Sheet

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

1 April 2009	31 March 2010		Notes	31 March 2011
£m	£m			£m
326.9	325.8	Property, Plant & Equipment	12	**333.2**
4.1	4.1	Investment Property	13	**4.1**
0.9	0.7	Intangible Assets	14	**0.7**
13.6	4.4	Long Term Investments	17	**3.0**
2.8	3.0	Long Term Debtors	19	**3.0**
348.3	**338.0**	**Long Term Assets**		**344.0**
61.4	95.6	Short Term Investments	17	**112.0**
0.4	0.4	Inventories	-	**0.1**
18.3	11.7	Short Term Debtors	19	**12.2**
5.7	14.2	Cash and Cash Equivalents	20	**2.7**
2.4	1.1	Assets Held for Sale	18	**1.1**
88.2	**123.0**	**Current Assets**		**128.1**
(1.2)	(1.5)	Short Term Borrowing	23	**(1.5)**
(1.2)	(1.2)	Other Short Term Liabilities	24	**(0.4)**
(26.8)	(32.8)	Short Term Creditors	21	**(35.6)**

1 April 2009	31 March 2010		Notes	31 March 2011
£m	£m			£m
(0.5)	(2.3)	Provisions	22	**(2.7)**
(29.7)	**(37.8)**	**Current Liabilities**		**(40.2)**
(1.2)	(1.3)	Long Term Creditors	21	**(1.0)**
(2.0)	(0.3)	Provisions	22	**(0.3)**
(109.5)	(132.6)	Long Term Borrowing	23	**(162.7)**
(31.2)	(30.0)	Other Long Term Liabilities	24	**(9.9)**
(112.9)	(166.4)	Pension Liability	46	**(76.6)**
(3.0)	(3.3)	Capital Grants/Contributions Receipts in Advance	46	**(6.8)**
(259.8)	**(333.9)**	**Long Term Liabilities**		**(257.3)**
147.0	**89.3**	**Net Assets**		**174.6**
50.3	54.2	Usable reserves	25	**54.3**
96.7	35.1	Unusable Reserves	26	**120.3**
147.0	**89.3**	**Total Reserves**		**174.6**

Cash Flow Statement

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

2009/10 £m		2010/11 £m
16.0	Net (surplus) or deficit on the provision of services	(24.4)
(72.0)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(4.1)
30.0	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	9.6
(26.0)	Net cash flows from Operating Activities (Note 27)	(18.9)
39.6	Investing Activities (Note 28)	39.6
(22.0)	Financing Activities (Note 29)	(9.2)
(8.4)	**Net (increase) or decrease in cash and cash equivalents**	**11.5**
5.8	Cash and cash equivalents at the beginning of the reporting period (Note 20)	14.2
14.2	**Cash and cash equivalents at the end of the reporting period (Note 20)**	**2.7**
8.4	Net increase or (decrease) in cash and cash equivalents	**(11.5)**

Notes to the Accounts

1. Transition to IFRS

The statement of accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The date of transition to IFRS for the Council was 1st April 2009. As a result there is a "third" balance sheet presented at that date.

Terminology changes

With the introduction of IFRS there has been a number of changes to the descriptions of income and expenditure and to the classification of income and expenditure on the Core Statements. There is a glossary at the rear of these accounts which explains some terminology used. Some of the changes in descriptions are listed below:

Description under SORP (UKGAAP)	**Description under CODE (IFRS)**
Fixed Assets	Non Current Assets
Stock	Inventories
Cash	Cash & Cash Equivalents
Surplus Assets	Assets Held For Sale
FRS (Financial Reporting Standards)	IAS (International Accounting Standards)

IFRS Restatement

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Short Term accumulating absences

Short term accumulating absences refers to benefits that employees receive as part of the contract of employment; entitlement to these benefits is built up as employees provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result the Council is required to accrue for any annual leave earned but not taken at 31st March each year. Under the previous accounting arrangements no such accrual was required.

The Government has issued regulations that mean Councils are only required to fund holiday pay and similar benefits when they are used rather then when the employees take the benefit. To reflect this regulation amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements.

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Creditors (short term)	(19.9)	(2.9)
Accumulated Absences Account	0	2.9
2009/10	2009/10 statements SORP	Restatement
Income & Expenditure/MIRS		
Cost of Services (Childrens)	33.2	0.5
Adjustments between accounting basis & funding under regulations	(2.2)	(0.5)
Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (cumulative)
Creditors (short term)	(25.4)	(3.4)
Accumulated Absences Account	0	3.4

Investment Properties

Under IFRS, Investment Properties are classified as properties held solely for rental stream or for capital appreciation. These assets are valued on that basis and are not depreciated.

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Property, Plant & Equipment	320.8	0.3
Revaluation Reserve	(48.1)	0.4
Capital Adjustment Account	(172.9)	(0.7)

Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (Cumulative)
Property, Plant & Equipment	329.9	0.3
Revaluation Reserve	(52.0)	0.4
Capital Adjustment Account	(167.6)	(0.7)

Assets Held for Sale

Under IFRS Assets Held for Sale are assets that are expected to be sold in the short term and are valued on that basis and are not depreciated.

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Property, Plant & Equipment	320.8	(4.2)
Assets Held for Sale	0	2.3
Revaluation Reserve	(48.1)	0.6
Capital Adjustment Account	(172.9)	1.3
2009/10	2009/10 statements SORP	Restatement
Income & Expenditure/SMR		
Cost of Services (Childrens)	33.2	(2.1)
Cost of Services (Cultural, Environmental & Planning)	24.2	(0.1)
Gains/Losses on Sale of Fixed Assets	0.4	0.1
Adjustments between accounting basis & funding under regulations	(11.8)	2.1
Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (Cumulative)
Property, Plant & Equipment	329.9	(3.7)
Assets Held for Sale	0	1.1
Revaluation Reserve	(52.0)	(0.1)
Capital Adjustment Account	(167.6)	2.7

Cash and Cash Equivalents

This category includes any investments that are held for liquidity purposes, such as money market funds, rather than for investment purposes.

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Temporary Investments	61.5	(0.1)
Cash & Bank	5.6	(5.6)
Cash & Cash Equivalents	0	5.7
Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (Cumulative)
Temporary Investments	108.1	(12.5)
Cash & Bank	1.7	(1.7)
Cash & Cash Equivalents	0	14.2

Foundation Schools

Under IFRS the Council's foundation schools are no longer recognised as Council assets.

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Property, Plant & Equipment	320.8	(88.9)
Assets under Construction	23.0	(0.4)
Revaluation Reserve	(48.1)	18.4
Capital Adjustment Account	(172.9)	70.9
2009/10	2009/10 statements	Restatement
Income & Expenditure/SMR		
Cost of Services (Childrens)	33.2	(2.2)
Gains/Losses on Disposal	0.4	35.5
Adjustments between accounting basis & funding under regulations	(11.8)	(33.3)

Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (Cumulative)
Property, Plant & Equipment	329.9	(105.6)
Assets under Construction	39.1	(20.5)
Revaluation Reserve	(52.0)	18.4
Capital Adjustment Account	(167.6)	107.7

Voluntary Controlled Schools

Under IFRS Voluntary Controlled schools are now recognised as Council assets.

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Property, Plant & Equipment	0	6.2
Capital Adjustment Account		(6.2)
2009/10	2009/10 statements SORP	Restatement
Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (cumulative)
Property, Plant & Equipment	329.9	6.2
Capital Adjustment Account	(167.6)	(6.2)

Provisions

Under IFRS provisions are now split into short (under 12 months) and long term provision (over 12 months).

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Provisions	(2.5)	2.5
Provisions greater than 12 mths	0	(2.0)
Provisions less than 12 months	0	(0.5)

Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (cumulative)
Provisions	(2.6)	2.6
Provisions greater than 12 months	0	(0.3)
Provisions less than 12 months	0	(2.3)

Leases

Under the Code leases of property are accounted for as separate leases of land and buildings. Previously each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land and building element of the lease being accounted for as an operating lease where previously it was treated as a finance lease or vise versa. In addition under the Code the tests to assess a lease as an operating lease or a finance lease have been re defined with the result that more leases are likely to be classified as a finance lease.

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Property, Plant & Equipment	58.2	(2.3)
Long Term Debtor	0.5	2.3
Capital Adjustment Account	(172.9)	0
2009/10	2009/10 statements SORP	Restatement
Income & Expenditure/SMR		
Cost of Services (Cultural, Environmental & Planning)	24.2	0.2
Interest and Investment Income	(3.6)	(0.2)
Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (cumulative)
Property, Plant & Equipment	63.0	(2.3)
Long Term Debtor	0.7	2.3
Capital Adjustment Account	(167.6)	0

Revenue Grants and Contributions

Under IFRS grants and contributions are recognised as income when conditions are met and Council has "control" over the grant rather than on a matching basis.

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Receipts in Advance	(4.3)	0.2
General Fund Reserve	(3.1)	(0.2)
2009/10	2009/10 statements SORP	Restatement
Income & Expenditure/SMR		
Cost of Services (Childrens)	33.2	0.1
Increase/(decrease) in General Fund	0.6	(0.2)
Cost of Services (Housing)	2.7	(0.1)
Cost of Services (Cultural, Environmental & Planning)	24.2	(0.4)
Adjustments between accounting basis & funding under	(11.8)	0.6
Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (cumulative)
Receipts in Advance	(4.7)	0.6
Earmarked Reserve	(29.7)	(0.6)

Capital Grants and Contributions

Under IFRS grants and contributions are recognised as income when conditions are met and Council has "control" over the grant rather than on a matching basis.

	£m	£m
Opening Balance Sheet - 1st April 2009	2008/09 statements SORP	Restatement
Government Grants & Contributions Deferred	(77.4)	77.4

Capital Grants & Contributions Unapplied	(21.3)	21.3
Capital Grants & Contributions Reserve	0	(19.2)
Capital Grants & Contributions – Receipts in Advance	0	(3.0)
Capital Adjustment Account	(172.9)	(77.4)
Creditors	(19.9)	0.9
2009/10	2009/10 statements	Restatement
Income & Expenditure/SMR		
Cost of Services (Childrens)	33.2	(2.4)
Cost of Services (Cultural, Environmental & Planning)	24.2	0.4
Cost of Services (Highways, Roads and Transport)	9.1	0.5
Cost of Services (Housing)	2.7	(0.2)
Cost of Services (Social Care)	44.2	(0.1)
Cost of Services (Non Distributed Costs)	1.0	0.1
Taxation and Non Specific Grant Income	(125.2)	(24.4)
Adjustments between accounting basis & funding under regulations	(11.8)	26.1
Opening Balance Sheet – 31st March 2010	2009/10 statements SORP	Restatement (cumulative)
Government Grants & Contributions Deferred	(103.7)	103.7
Capital Grants & Contributions Unapplied	(21.5)	21.5
Capital Grants & Contributions Reserve	0	(19.1)
Capital Grants & Contributions – Receipts in Advance	0	(3.3)
Capital Adjustment Account	(167.6)	(103.7)
Creditors	(25.4)	0.9

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

Heritage assets are to be recognised as a separate class of assets for the first time in the 2011/12 financial statements, in accordance with IFRS 30 which will require the 2010/11 accounts to be restated. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, historic motor vehicles, civic regalia, orders and decorations (medals), museum and gallery collections and works of art.

The carrying amount of assets (based on current insurance valuations) is expected to be recognised as heritage assets in the 2010/11 financial statements is £6.5m. On recognition of these assets there is likely to be a revaluation gain equal to that value. If the assets are depreciated over 50 years the annual charge will be £0.1m per annum.

3. **Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 47, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are:

- The accounts are produced on a going concern basis – although like most of the public sector there is significant concern about future funding levels from central government.
- The Council's interests in various companies (see related parties note 39) are not considered sufficiently material to require the production of group accounts in addition to the Council's "single entity" accounts
- 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 assets are not specified in the contract and are not for the exclusive use of the Council.
- 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.
- The Council has accounted for the Business Improvement District for Torquay on an agency basis.
- The Council has recognised as a cost in 2010/11 any future staff related costs arising from decisions made in the year in relation to budget reductions and restructuring.
- The accounts are produced on a "true and fair" basis and where appropriate levels of materiality have been used in compiling these accounts.

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 certainly, actual results could be materially different from the assumptions and estimates.

Apart from the significant change in the actuarial assumptions in relation the pension liability as disclosed in note 46, there are no other changes in accounting estimates in 2010/11 or expected in future years.

The items in the Council's balance sheet at 31st March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant & Equipment Value 31/3/11 - £333 million	Assets are valued based on relevant information such as property indexes, and then depreciated over the estimated asset life. The valuations are undertaken by the Council's appointed RICS qualified valuer.	Assets are under or over valued which will over/under state depreciation and/or impairment in the financial year. A 10% variation on depreciation is £0.5 million on the I&E statement There is, however, a statutory adjustment allowed which allows the impact of this cost to be reversed.
Provisions Value 31/3/11 - £3 million	Estimates are made for know liabilities, such as insurance claims, but the amount and timing of any payment to settle these liabilities is unknown.	Provisions are over or understated which could result in additional costs or savings in future years. A 10% variation on provisions as at 31/3/11 is £0.3 million.
Pension Liability Value 31/3/11 £77 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	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% change in the discount rate assumption would result in a change in the (gross) pension liability of £6 million. Similarly a change in the mortality assumption of 1 year

	information and every three years thee is a detailed actuarial review of the fund.	would result in a change of £9 million. However, the assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pensions liability had decreased by £12 million as a result of estimates being corrected as a result of experience and decreased by £50 million attributable to updating of the assumptions.
Accruals – Creditors & Debtors Value 31/3/11 Creditors - £32 million Debtors - £17 million	Estimates are made for work done/goods received but not paid for by both the Council for its suppliers (creditors) and its customers (debtors). Estimates are made by services with support from finance staff based on relevant information	Creditors and debtor figures could be are over or understated which could result in additional costs or savings in future years.
Impairment/Bad Debt Value 31/3/11 - £5 million	As at 31st March estimates are made as to the collectability of the totals debt owed to the Council.	Debtor figures could be are over or understated which could result in additional costs or savings in future years. A 10% variation on impairment as at 31/3/11 is £0.5 million
Accumulated Absences Value 31/3/11 - £3 million	Estimates are made for the value of employee benefits earned by staff as at 31st March but not paid/taken such as annual leave or school holidays.	Creditors figures could be over or understated which could result in additional costs or savings in future years. There is, however, a statutory adjustment allowed which allows the impact of this cost to be reversed.

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 2010/11. These include:

The majority of payments for back pay to April 2007 relating to the job evaluation process were made in 2010/11. These totalled £3.2 million and were funded from the 2010/11 budget for job evaluation costs and provisions and accruals provided for in previous years.

As a result of the 2011/12 budget process and the restructuring of the Council's senior management actual costs and a provision for future costs arising from the staffing reductions was made in 2010/11. These totalled £1.4 million and were funded from the Comprehensive Spending Review Reserve.

In 2010/11 three schools converted to Academy status. As all three schools were previously foundation schools there was no impact on the Council's balance sheet however income and expenditure for these schools from date of transfer no longer forms part of the Council accounts.

The Council contract with TOR2 started in July 2010. Due to the pattern of contract payments to TOR2, set up costs and the profile of residual costs the Council still pay – such as the repayment of borrowing on vehicles & plant, there was increased costs in 2010/11 that were funded from reserves. There is estimated to be lower costs in future years which will enable reserves to be replenished.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 30th June 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Since 31st March 2011 to the date the Chief Finance officer authorised the accounts (30th June 2011) there are a few significant events to note:

In the Council elections in May 2011 a conservative majority was elected along with a new Mayor – Gordon Oliver who is a conservative party candidate.

In April 2011 an economic development company was set up – limited by share, 100% owned by the Council, which went live in May 2011 when over 70 staff and a number of assets were transferred to the company at nil consideration

Three primary schools converted to academy status in April 2011 becoming independent of the Council.

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 Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2010/11	Usable Reserves			
	General Fund Balance £m	**Capital Receipts Reserve £m**	**Capital Grants Unapplied £m**	**Movement in Unusable Reserves £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	(20.0)	0	0	20.0
Amortisation of intangible assets	(0.3)	0	0	0.3
Revenue expenditure funded from capital under statute	0.4	0	(11.1)	10.7
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	(0.3)	0	0	0.3
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	4.0	0	0	(4.0)
Repayment to Devon County Council in relation to transferred debt	0.4	0	0	(0.4)
Capital expenditure charged against the General Fund	1.9	0	0	(1.9)
Adjustments involving Capital Grant Unapplied Account				
Capital Grants & Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	6.1	0	(1.4)	(4.7)
Application of Grants to capital financing transferred to the Capital Adjustment Account	0	0	14.6	(14.6)
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	0.5	(0.5)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0.4	0	(0.4)
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	0.1	0	0	(0.1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	20.1	0	0	(20.1)
Employer's pensions contributions and direct payments to pensioners payable in the year	8.2	0	0	(8.2)
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	0.7	0	0	(0.7)
Adjustment involving the Accumulating Compensated Absences Adjustment Account				
Amount by which officer remuneration charged to the	0.4	0	0	(0.4)

2010/11	Usable Reserves			
	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Movement in Unusable Reserves £m
Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements				
Total Adjustments	**22.3**	**(0.1)**	**2.1**	**24.3**

2009/10 Comparative Figures	Usable Reserves			
	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Movement in Unusable Reserves £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	(10.5)	0	0	10.5
Movements in the market value of Assets Held for Sale	0.2	0	0	(0.2)
Amortisation of intangible assets	(0.3)	0	0	0.3
Revenue expenditure funded from capital under statute	7.9	0	(9.4)	1.5
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	(38.2)	0	0	38.2
Notional Rent Credit	0.1			-0.1
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	4.1	0	0	(4.1)
Repayment to Devon County Council in relation to transferred debt	0.9	0	0	(0.9)
Capital expenditure charged against the General Fund	1.3	0	0	(1.3)
Adjustments involving Capital Grant Unapplied Account				
Capital Grants & Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	19.0	0	(7.7)	(11.3)
Application of Grants to capital financing transferred to the Capital Adjustment Account	0	0	17.2	(17.2)
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	2.2	(2.2)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	2.2	0	(2.2)
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are	0.1	0	0	(0.1)

2009/10 Comparative Figures	Usable Reserves			
	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Movement in Unusable Reserves £m
different from finance costs chargeable in the year in accordance with statutory requirements				
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note47)	(15.8)	0	0	15.8
Employer's pensions contributions and direct payments to pensioners payable in the year	8.4	0	0	(8.4)
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	(1.1)	0	0	(1.1)
Adjustment involving the Accumulating Compensated Absences Adjustment 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	**(20.0)**	**0**	**0.1**	**19.9**

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 2010/11.

	Balance at 1 April 2009 £m	Transfer Out 2009/10 £m	Transfer In 2009/10 £m	Balance at 31 March 2010 £m	Transfer Out 2010/11 £m	Transfer In 2010/11 £m	Balance at 31 March 2011 £m
General Fund:							
Budget Issue Reserves	**0.4**	(0.3)	0.4	**0.5**	(0.5)	0.9	**0.9**
Capital Funding Reserve	**0.5**	(0.6)	1.8	**1.7**	(0.8)	0.2	**1.1**
Service Carry Forwards	**4.4**	(3.6)	5.2	**6.0**	(5.4)	7.7	**8.3**
Cemeteries Reserve	**0.1**	0	0	**0.1**	0	0	**0.1**
Change Management & Financial Strategy Reserve	**2.0**	(1.9)	0.8	**0.9**	(0.6)	0.6	**0.9**
Comprehensive Spending	**0**	0	0	**0**	(1.3)	4.8	**3.5**

	Balance at 1 April 2009 £m	Transfer Out 2009/10 £m	Transfer In 2009/10 £m	Balance at 31 March 2010 £m	Transfer Out 2010/11 £m	Transfer In 2010/11 £m	Balance at 31 March 2011 £m
Issues Reserve							
Disposal and Property Costs Reserve	**0.2**	0	0.1	**0.3**	(0.1)	0	**0.2**
Early Retirement Reserve (schools)	**0.5**	(0.7)	0.5	**0.3**	(0.7)	0.5	**0.1**
Employment Issues Reserve	**1.9**	(0.9)	1.7	**2.7**	(2.7)	0.3	**0.3**
Equipment Reserves	**0.6**	(0.2)	0.1	**0.5**	(0.1)	0	**0.4**
Financial Climate Reserve	**0**	0	0.2	**0.2**	(0.2)	0	**0**
Harbour's Reserve	**0.9**	(0.1)	0.2	**1.0**	0	0.2	**1.2**
Housing – Telecare	**0**	0	0.3	**0.3**	(0.1)	0	**0.2**
JVC Set Up Reserve	**0.5**	(0.5)	0	**0**	0	0	**0**
Insurance Reserves	**3.8**	(0.2)	0.3	**3.9**	(0.8)	0.4	**3.5**
IFRS Restatement	**0**	0	0.6	**0.6**	(0.6)	0	**0**
IT Equipment Reserve	**0.7**	0	0.1	**0.8**	0	0.2	**1.0**
LA Business Growth Incentive	**0.4**	(0.4)	0.2	**0.2**	(0.1)	0	**0.1**
LGR Repayment Reserve	**0.1**	0	0	**0.1**	(0.1)	0	**0**
Misc. Specific Reserves	**0.2**	(0.1)	0.4	**0.5**	(0.4)	0.4	**0.5**
Office Accommodation Reserve	**0**	0	0.3	**0.3**	0	0	**0.3**
Pension Reserve	**0.2**	0	0	**0.2**	(0.3)	0.6	**0.5**
PFI Sinking Fund	**4.3**	(0.8)	0.8	**4.3**	(1.4)	0.4	**3.3**
Planning Reserve	**0.4**	0	0	**0.4**	(0.1)	0.1	**0.4**
Riviera Centre	**0.1**	0	0.2	**0.3**	0	0.1	**0.4**
Schools' Balances held under a delegation scheme	**1.0**	(1.0)	0.7	**0.7**	(2.2)	4.0	**2.5**
Schools Redundancy Reserve	**0**	0	0	**0**	(0.1)	0.2	**0.1**
Seaside Towns	**0**	0	0	**0**	0	0.2	**0.2**
South Devon Link Road	**0**	0	0	**0**	0	0.1	**0.1**
South West Water	**0.1**	(0.1)	0	**0**	0	0	**0**
Supporting People Reserve	**1.2**	(0.2)	0	**1.0**	(0.2)	0	**0.8**
TDA Agency Capital Scheme Reserve	**0.6**	(0.5)	0.2	**0.3**	(0.3)	0.1	**0.1**

	Balance at 1 April 2009 £m	Transfer Out 2009/10 £m	Transfer In 2009/10 £m	Balance at 31 March 2010 £m	Transfer Out 2010/11 £m	Transfer In 2010/11 £m	Balance at 31 March 2011 £m
TPSL Reserve (Housing)	**0.1**	0	0	**0.1**	(0.1)	0	**0**
Trading Reserves (Operations)	**0.3**	0	0	**0.3**	(0.3)	0	**0**
Unsupported Borrowing Reserve	**1.1**	0	0.2	**1.3**	0	0.1	**1.4**
Vehicles and Plant Reserve	**0.2**	0	0	**0.2**	(0.2)	0	**0**
Waste Strategy Reserve	**0.6**	(0.1)	0.5	**1.0**	(0.6)	0	**0.4**
Total	**27.4**	(12.2)	15.8	**31.0**	(20.3)	22.1	**32.8**

The purpose for the reserves 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 - *Council 13th July 2011*
Cemeteries	To provide a reserve to fund future maintenance issues on Council cemetery sites
Change Management and Financial Strategy	To fund the implementation of high level reviews and other corporate initiatives.
Comprehensive Spending Issues Reserve	To fund costs associated with meeting budget reductions as a result of the Government's comprehensive spending review.
Disposal Costs 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.

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.
Financial Climate	Reserve established in 2009/10 to support the Council's general fund reserve to reflect the increased risk to Council balances from external issues such as the economic conditions. Not now in use.
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
JVC Set Up Reserve	To set aside monies in relation to the Council initiative to establish a Joint Venture Company to deliver a range of services – balance used as at 31/3/10
IFRS Restatement Reserve	A temporary reserve, now cleared, used to reflect the entries required on the transition to IFRS accounting standards.
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.
Local Authority Business Growth Incentive Reserve	Reserve for the business incentive grant pending the development of plans for the effective use of this grant.
LGR Repayment	To mitigate the impact of increased Minimum Revenue Provision on the Council's Revenue Account arising from the Council's Local Government Reorganisation Supplementary Credit Approval.
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, Pearl Assurance House Repair and minor communities reserves.

Pension Reserve	To set aside monies for any potential liability for the pension costs relating to the transfer of staff to Torbay Care Trust in 2005 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.
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.
Seaside Towns	Reflects the balance of a government grant received in 2009/10.
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
TPSL Reserve (Housing)	To set aside amounts for potential costs of returning properties to landlords under the Private Sector Leasing scheme for homeless people.
Trading Reserves	Trading Reserves to support Operational Services. Now not in use post TOR2 contract.
Unsupported Borrowing Equalisation Reserve	Reflects the temporary surplus/deficit arising from the charges to services for the repayment of expenditure under Prudential Borrowing compared to actual interest and Revenue Provision.
Vehicles and Plant	To finance the purchase of vehicles and plant when updating the authority's fleet. Now not in use post TOR2 contract.
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**

2009/10		2010/2011
£m		£m
0.2	Parish council precepts	**0.2**
0	Work undertaken on an Agency basis	**0**
36.0	Gains/losses on the disposal of non current assets	**(0.3)**
36.2	**Total**	**(0.1)**

10. **Financing and Investment Income and Expenditure**

2009/10		2010/2011
£m		£m
6.9	Interest payable and similar charges	**7.3**
9.3	Pensions interest cost and expected return on pensions assets	**5.0**
(3.9)	Interest receivable and similar income	**(1.8)**
(0.3)	Income and expenditure in relation to investment properties and changes in their fair value	**(0.3)**
12.0	**Total**	**10.2**

11. **Taxation and Non Specific Grant Incomes**

2009/10		2010/2011
£m		**£m**
(60.6)	Council tax income	**(62.6)**
(45.6)	Non domestic rates	**(51.5)**
(19.0)	Non-ringfenced government grants	**(20.3)**
(24.4)	Capital grants and contributions	**(6.1)**
(149.6)	**Total**	**(140.5)**

12. Property, Plant and Equipment

Measurement Basis

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

Market Value for 'Assets Held for Sale' and 'Investment Properties'

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 assets and Vehicles, Plant and Equipment.

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 exceptions of Investment Properties, Assets Held for Sale and Land.

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 authority.

Movements on Balances

Movements in 2010/11

	Other Land & Buildings	**Vehicles, Plant & Equipm't**	**Infra - structure Assets**	**Community Assets**	**Assets Under Const-ruction**	**Total Property, Plant & Equipm't**	**PFI Assets Included in Property, Plant & Equipm't**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cost or Valuation							
At 1 April 2010	234.8	15.0	72.5	9.3	19.8	**351.4**	3.7
Additions	12.5	1.7	9.9	2.2	2.2	**28.5**	0
Donations	0	0	0	0	0	**0**	0
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(1.1)	0	0	0.1	0	**(1.0)**	0
Revaluation Increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(12.6)	0	0	0	0	**(12.6)**	0

Derecognition - Disposals	0	0	0	0	0	**0**	0
Derecognition - Other	(0.6)	0	0	0	0	**(0.6)**	0
Assets reclassified (to)/from Held for Sale	(0.3)	0	0	0	0	**(0.3)**	0
Other movements in Cost or Valuation	13.9	0	4.3	0.1	(19.1)	**(0.8)**	0
At 31 March 2011	**246.6**	**16.7**	**86.7**	**11.7**	**2.9**	**364.6**	**3.7**
Accumulated Depreciation and Impairment							
At 1 April 2010	(7.0)	(7.9)	(10.3)	(0.4)	0	**(25.6)**	(0.1)
Depreciation charge	(3.2)	(1.3)	(1.7)	(0.2)	0	**(6.4)**	(0.1)
Depreciation written out to the Revaluation Reserve	0.4	0	0	0	0	**0.4**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0.2	0	0	0	0	**0.2**	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	**0**	0
Derecognition - Disposals	0	0	0	0	0	**0**	0
Derecognition - Other	0	0	0	0	0	**0**	0
Other movements in Depreciation and Impairment	0	0	0	0	0	**0**	0
At 31 March 2011	**(9.6)**	**(9.2)**	**(12.0)**	**(0.6)**	**0**	**(31.4)**	**(0.2)**
Net Book Value							
At 31 March 2011	**237.0**	**7.5**	**74.7**	**11.1**	**2.9**	**333.2**	**3.5**
At 31 March 2010	227.8	7.1	62.2	8.9	19.8	325.8	3.6

Comparative Movements in 2009/10	**Other Land and Buildings**	**Vehicles, Plant & Equipm't**	**Infra-structure Assets**	**Community Assets**	**Assets Under Const-ruction**	**Total Property, Plant & Equipm't**	**PFI Assets Included in Property, Plant and Equipm't**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cost or Valuation							
At 1 April 2009	238.9	13.1	66.8	7.2	22.6	**348.6**	3.7
Additions	10.6	2.1	5.3	1.4	22.9	**42.3**	0
Donations	0	0	0	0	0	**0**	0
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	10.4	0	0	(0.1)	0	**10.3**	0
Revaluation Increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(4.8)	0	0	(0.2)	0	**(5.0)**	0
Derecognition - Disposals	1.0	(0.2)	0	0	(20.0)	**(19.2)**	0
Derecognition - Other	(19.8)	(0.1)	(0.1)	0	0	**(20.0)**	0
Assets reclassified (to)/from Held for Sale	0	0	0	0.6	0	**0.6**	0
Other movements in Cost or Valuation	(1.5)	0.1	0.5	0.4	(5.7)	**(6.2)**	0
At 31 March 2010	**234.8**	**15.0**	**72.5**	**9.3**	**19.8**	**351.4**	**3.7**
Accumulated Depreciation and Impairment							
At 1 April 2009	(6.1)	(6.8)	(8.7)	(0.1)	0	**(21.7)**	0
Depreciation charge	(4.1)	(1.3)	(1.6)	(0.2)	0	**(7.2)**	(0.1)
Depreciation written out to the Revaluation Reserve	1.4	0	0	0	0	**1.4**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0.3	0	0	0	0	**0.3**	0
Impairment losses/(reversals)recognised in the Revaluation Reserve	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the	0	0	0	0	0	**0**	0

Provision of Services							
Derecognition - Disposals	0	0.2	0	0	0	**0.2**	0
Derecognition - Other	1.0	0	0	0	0	**1.0**	0
Other movements in Depreciation and Impairment	0.5	0	0	(0.1)	0	**0.4**	0
At 31 March 2010	**(7.0)**	**(7.9)**	**(10.3)**	**(0.4)**	**0**	**(25.6)**	**(0.1)**

Contractual Commitments for the acquisition of Property, Plant and Equipment as at 31 March 2011

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**	**2011/12**	**2012/13**
Education		£m	£m	£m
Oldway Primary	Provide a new dining hall and enhance changing rooms for disabled children	0.8	0.8	0
Curledge Street Primary	Rationalise places, replace unsuitable accommodation and improve playground facilities	1.2	0.9	0.3
My Place Parkfield	Development of high quality Youth Centre to provide a range of activities and services	0.7	0.7	0
Housing				
Sanctuary HA – Dunboyne	Development to provide 45 no. Extra Care apartments	0.6	0.6	0
New Growth Points – Land Acquisition	Acquisition of land to facilitate future Affordable Housing developments	1.9	1.9	0
Highways				
Tweenaway Cross	Redesign of major road junction aiming to reduce traffic congestion and ease flows	1.1	1.1	0
Economic Regeneration				
Office Rationalisation	Centralisation of Council Offices	1.1	1.1	0
Culture				
Sea Change – Cockington Court	Development of facilities at Cockington Court to provide workshops for Creative Skills Centre	0.8	0.8	0
Total Significant Commitments		**8.2**	**7.9**	**0.3**

Nature and Effects of Changes in Accounting Estimates

Changes to

- Residual Values - the residual value of an asset reflects the value remaining in an asset when it reaches the end of its useful life. Commonly, this represents the land value attached to an asset. Since land is not subject to depreciation, any change in the residual value will alter the amount of depreciation charged.

- Useful lives – extending or reducing the useful life of an asset will also impact on the amount of depreciation charged for the use of an asset.

- Depreciation method – the method of depreciation should reflect the likely pattern of an asset's service potential. There are two main models popularly used – Straight Line where the annual depreciation charge is maintained across the life of the asset; or Reducing Balance where depreciation in early years is high but reduces as the asset gets older.

Revaluations

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

	Other Land and Buildings	**Vehicles, Plant, Furniture and Equipment**	**Surplus Assets**	**Total**
	£m	**£m**	**£m**	**£m**
Carried at historical cost	0	16.6	0	16.6
Valued at fair value as at:				
31 March 2011	34.0	0	0	34.0
31 March 2010	28.7	0	0	28.7
31 March 2009	79.5	0	0	79.5
31 March 2008	79.8	0	0	79.8
31 March 2007	24.6	0	0	24.6
Total Cost or Valuation	246.6	16.6	0	263.2

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:

2009/10 £m		2010/11 £m
(0.4)	Rental income from investment property	**(0.4)**
0.1	Direct operating expenses arising from investment property	**0.1**
(0.3)	Net (gain)/loss	**(0.3)**

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

2009/10 £m		2010/11 £m
4.2	Balance at start of the year	**4.1**
(0.1)	Net gains/losses from fair value adjustments	**0**
4.1	Balance at end of the year	**4.1**

14. Intangible Assets

The Council accounts for its software as intangible assets. The intangible assets are purchased licenses. There are no material internally generated 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 Authority. The useful lives assigned to the major software suites used by the Authority are:

Useful life	Intangible Assets (purchased)
3 years	TRIPS, Libraries Digitisation
5 years	PARIS, Digital Imaging, Email archiving
10 years	FIMS, Decriminalised Parking

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.3 million charged to revenue in 2011/12 was charged to the relevant services within the comprehensive Income and Expenditure Statement or initially to an 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:

2009/10 Intangible assets (purchased) £m		20010/11 Intangible assets (purchased) £m
	Balance at start of year:	
3.2	• Gross carrying amounts	**3.3**
(2.3)	• Accumulated amortisation	**(2.6)**
0.9	Net carrying amount at start of year	**0.7**
	Additions:	
0.1	• Purchases	**0.3**
(0.3)	Amortisation for the period	**(0.3)**
0.7	Net carrying amount at end of year	**0.7**
	Comprising:	
3.3	• Gross carrying amounts	**3.6**
(2.6)	• Accumulated amortisation	**(2.9)**
0.7		**0.7**

There are two items of capitalised software that are individually material to the financial statements:

31 March 2010 £m	Carrying Amount	31 March 2011 £m	Remaining Amortisation Period
0.2	FIMS (Council's main Financial Management System)	**0.2**	2 years
0.2	Decriminalised Parking Software (System to manage parking meters)	**0.1**	3 years

15. **Financial Instruments**

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

	Long-term			Current		
	1st April 2009 £m	**31 March 2010 £m**	**31 March 2011 £m**	**1st April 2009 £m**	**31 March 2010 £m**	**31 March 2011 £m**
Investments						
Loans and receivables	13.6	4.4	3.0	46.5	57.9	76.4
Available-for-sale financial assets	0	0	0	0	0	0
Financial assets at fair value through profit and loss	0	0	0	14.9	37.7	35.6
Total investments	**13.6**	**4.4**	**3.0**	**61.4**	**95.6**	**112.0**
Cash & Cash Equivalents						
Available-for-sale financial assets	**0**	**0**	**0**	**0.1**	**12.5**	**2.0**
Debtors (incl. Payments in Advance)						
Soft Loans	0.2	0.2	0	0	0	0
Financial assets carried at contract amounts	0.3	0.5	3.0	17.7	11.2	11.5

Total Debtors	**0.5**	**0.7**	**3.0**	**17.7**	**11.2**	**11.5**
Borrowings/Liabilities						
Financial liabilities at amortised cost	(109.5)	(132.6)	(162.7)	(1.2)	(1.5)	(1.5)
Total borrowings	**(109.5)**	**(132.6)**	**(162.7)**	**(1.2)**	**(1.5)**	**(1.5)**
Other Long Term Liabilities						
PFI liability	(10.5)	(10.1)	(9.7)	(0.4)	(0.4)	(0.4)
Financial Guarantees	(0.2)	(0.2)	(0.2)	0	0	0
Total other long term liabilities	**(10.7)**	**(10.3)**	**(9.9)**	**(0.4)**	**(0.4)**	**(0.4)**
Creditors (incl. receipts in advance)						
Financial liabilities carried at contract amount	(1.2)	(1.3)	(1.0)	(26.8)	(32.8)	(35.6)
Total creditors	**(1.2)**	**(1.3)**	**(1.0)**	**(26.8)**	**(32.8)**	**(35.6)**
Total Financial Instruments	**(107.3)**	**(139.1)**	**(167.6)**	**(50.8)**	**(84.6)**	**(88.0)**

During the year the Council has not reclassified any financial instruments with the exception of a change in classification of a loan from a soft loan to long term debtors (£0.2m) as a loan now being repaid with interest, or transferred any financial instruments that would require a change in the recognition of that instrument. The Council has not 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	Fund Manger and Treasury Management advisor have

	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.	confirmed that the carrying value of the fund at 31st March is the fair value of the Fund.
Investments – Other	Held at carrying value on basis of materiality	
Soft Loans	Where material soft loans have been measured using an assumed effective interest rate of 5%.	As at 31st March 2011 there were no soft loans
Contractual Debt/payables	Held at invoiced or billed amount less an estimate of Impairment for the uncollectability of that debt.	
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.	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 the current economic conditions	As appropriate the impairment for contractual debt has been increased. 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. These include car loans to staff which are at a market rate, deferred payments and other minor investments.

Income, Expense, Gains and Losses

	2009/10					2010/11				
	Financial Liabilities	Financial Assets				Financial Liabilities	Financial Assets			
	Liabilities measured at amortised cost £m	Loans and receivables £m	Available-for-sale assets £m	Assets and Liabilities at Fair Value through Profit and Loss £m	Total £m	Liabilities measured at amortised cost £m	Loans and receivables £m	Available-for-sale assets £m	Assets and Liabilities at Fair Value through Profit and Loss £m	Total £m
Interest expense	3.7	-	-	-	**3.7**	4.7	-	-	-	**4.7**
Reductions in fair value re interest due	1.5	-	-	0	**1.5**	1.5	-	-	0	**1.5**
Total expense in Surplus or Deficit on the Provision of Services	**5.2**	**0**	**0**	**0**	**5.2**	**6.2**	**0**	**0**	**0**	**6.2**
Interest income	-	(0.4)	(0.1)	-	**(0.5)**	-	(0.7)	0	-	**(0.7)**
Increases in fair value	-	(1.3)	-	(0.8)	**(2.1)**	-	(0.4)	-	(0.4)	**(0.8)**
Total income in Surplus or Deficit on the Provision of Services	**0**	**(1.7)**	**(0.1)**	**(0.8)**	**(2.6)**	**0**	**(1.1)**	**0**	**(0.4)**	**(1.5)**
Net gain/(loss) for the year	**5.2**	**(1.7)**	**(0.1)**	**(0.8)**	**2.6**	**6.2**	**(1.1)**	**0**	**(0.4)**	**4.7**

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 2011, 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 2011

For Investments, such as callable deposits (assumed to maturity) and 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 2011

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 long term debtors and creditors is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	1 April 2009		**31 March 2010**		**31 March 2011**	
	Carrying amount £m	**Fair value £m**	**Carrying amount £m**	**Fair value £m**	**Carrying amount £m**	**Fair value £m**
Financial liabilities:- Borrowings	(110.7)	(108.6)	(134.1)	(128.6)	(162.5)	(148.3)
Other Financial Liabilities	**(11.1)**	**(11.1)**	**(10.7)**	**(10.7)**	**(10.3)**	**(10.3)**
Long-term creditors	**(1.2)**	**(1.2)**	**(1.3)**	**(1.3)**	**(1.0)**	**(1.0)**
Loans and receivables:						
- Cash & Cash Equivalents	0.1	0.1	12.5	12.5	2.0	2.0
- Fund Manager	14.9	14.9	37.7	37.7	35.6	35.6
- Short Term Loans	46.4	45.7	57.9	58.2	76.4	76.5
- Long Term Loans	13.6	14.5	4.5	5.2	3.0	3.0
Long-term debtors	2.8	2.8	3.0	3.0	3.0	3.0

The fair value of the loans and receivables (investments) is marginally higher than the carrying amount because the Authority's portfolio of investments includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2011) 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 significantly lower than the carrying amount because the Council's portfolio of loans includes a number of fixed rates where the interest rate payable is lower than the rates available for similar loans at the balance sheet date. The commitment to pay interest below current market rates reduces 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 2011 of £159.8 million (£122.4m 2009/10) This is higher than the carrying PWLB amount of £152.5m 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.

16 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 authority
- liquidity risk – the possibility that the authority 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 central treasury team, under policies approved by full Council as set out in the Treasury Management Strategy as presented to Council in February 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 maximum 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 complies 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 31/3/11	Historical experience of default	Historical experience adjusted for market conditions at 31/3/11	Estimated maximum exposure to default and uncollectability
	£m	%	%	£m
Deposits with banks and other financial institutions	81.3	0%	0%	0
Deposits held by Fund manager	35.6	0%	0%	0
Trade and other Receivables – Sundry Debt	2.8	0.5%	1%	0.3
Total	**119.7**			**0.3**

The Council does not generally allow credit to customers. In reviewing the Council's sundry debt £1.2 million of its sundry debt of the £2.8 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

31/03/10		**31/03/11**
£m		**£m**
0.9	Less than 3 months	**1.6**
0.9	Three months to one year	**0.7**
0.4	More than one year	**0.5**
2.2	**Total**	**2.8**

At year end the level of impairment for 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 19) .

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
31/03/10		**31/03/11**
1.5	Less than one year	**1.5**
0	Between one and two years	**0**
4.0	Between two and five years	**4.0**
12.0	Between five and ten years	**15.0**
21.0	Between ten and twenty years	**24.8**
24.3	Between twenty and thirty years	**31.3**
71.0	Above thirty years	**82.3**
133.8	**Total**	**158.9**

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 significant 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 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 Income and Expenditure will rise
- investments at fixed rates - the fair value of the assets will fall

Where the Council has borrowing 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. Movements in the fair value of fixed rate investments will be reflected in the MIRS.

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 2011 the Council had £5m of borrowing at variable interest rates along 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 2011 the interest rates are 1% higher than the actual interest rates the financial impact would be:

a) Borrowing:

The Council had £5m of variable rate borrowing as at 31st March 2011 so the impact would be £50,000 higher. However the Council could choose to repay the loan if rates increased.

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 were maintained at the level as at 31st March 2011 for a full financial year, this would generate an additional £1.0m 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 39), 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.

17 Investments

<u>Long Term Investments</u>

As at 31st March 2011 the Council had invested, as part of its treasury management function, £3.0 million (2009/10 £4.0m) with 1 institution with a maturity of greater than one year.

The table below shows an analysis of the Money Market Investments repayments, (principal only):

Total Invested 1st April 2009 £ m	Total Invested 31st March 2010 £ m	**Analysis of Investments by due dates**	**Total Invested 31st March 2011 £ m**
9.0	2.0	1 up to 2 years	**3.0**
2.0	2.0	2 up to 3 years	**0**
2.0	0	3 up to 4 years	**0**
13.0	4.0	Total	**3.0**
13.6	*4.4*	*Fair Value as at 31st March - including interest due*	*3.0*

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 2011 the Council held £111.3 million (2010/11 £92.5 m) of short-term (money market) investments, of which £35.6 million (2009/10 £35.5m) is held by the Council's fund manager – Scottish Widows.

Total Invested 1st April 2009 £ m	Total Invested 31st March 2010 £ m		**Total Invested 31st March 2011 £ m**
		Short Term Investments - less than 1 year	
45.0	45.0	- Cash Deposits	**43.7**
0	12.0	- Notice/Call Accounts	**32.0**
14.9	35.5	- Fund Manager *	**35.6**
59.9	92.5	Total Temporary Investments	**111.3**
61.5	*95.6*	*Fair Value as at 31st March - including interest due*	*112.0*

Note * - The Council has designated its holding with Scottish Widows as 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.

18. Assets Held for Sale

Assets held solely for rental streams or capital appreciation

	2009/10	**2010/11**
	£m	**£m**
Balance outstanding at start of year	2.4	**1.1**
Assets newly classified as held for sale:		
- Property, Plant and Equipment	0	**0.3**
Revaluation losses	(0.1)	**0**
Revaluation gains	0.2	**0**
Assets sold	(1.4)	**(0.3)**
Balance outstanding at year-end	1.1	**1.1**

19 Debtors

Debtors represent monies owed to the Council.

Long Term Debtors

1st April 2009	31 March 2010		**31 March 2011**
£m	£m		**£m**
0.3	0.4	Other Long Term Debtors	**0.3**
2.3	2.3	Disposal Torquay Marina	**2.3**
0	0.1	Cremator Replacement	**0.2**
0.2	0.2	Loan - PLUSS	**0.2**
2.8	3.0	**Total Long Term Debtors**	**3.0**

Short Term Debtors (Due within one year including payments in advance)

1st April 2009 £m	31 March 2010 £m		31 March 2011 £m
4.8	4.3	Central government bodies	**3.9**
2.9	1.6	Other local authorities and public bodies	**2.4**
0.2	0.5	NHS bodies	**0.2**
3.0	3.2	Council Tax arrears including liability orders	**3.4**
1.6	1.6	Housing Benefit	**2.0**
10.5	5.3	Other entities and individuals	**5.6**
23.0	16.5	**Total**	**17.5**
(4.7)	(4.8)	**Impairment on short term debtors**	**(5.3)**
18.3	11.7		**12.2**

20. **Cash and Cash Equivalents**

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

1st April 2009 £m	31 March 2010 £m		31 March 2011 £m
5.6	1.7	Bank current accounts	0.7
0.1	12.5	Short-term deposits with Money Market Funds	2.0
5.7	**14.2**	**Total Cash and Cash Equivalents**	**2.7**

21 Creditors

Represents monies owed by the Council

Long Term Creditors

1st April 2009	31 March 2010		**31 March 2011**
£m	£m		**£m**
1.0	1.1	PFI Renewal Fund	**0.8**
0.2	0.2	Other long term creditors	**0.2**
1.2	1.3	**Total Long Term Creditors**	**1.0**

Short Term Creditors (due within one year including receipts in advance)

1st April 2009	**31 March 2010**		**31 March 2011**
£m	**£m**		**£m**
0.1	1.7	Central government bodies	**0.5**
5.3	3.7	Other local authorities and public bodies	**4.7**
5.5	5.2	NHS bodies	**8.9**
15.9	22.2	Other entities and individuals	**21.5**
26.8	**32.8**	**Total**	**35.6**

Capital Grants & Contributions – Received in Advance

1st April 2009	31 March 2010		**31 March 2011**
£m	£m		**£m**
1.1	2.0	Capital Grants	**6.3**
1.9	1.3	Capital Contributions	**0.5**
3.0	3.3		**6.8**

22. **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 (staff) £m	Other Provisions £m	Total £m
Balance at 1 April 2009					
- Due under one year	0.3	0	0	0.2	0.5
- Due over one year	0.4	1.6	0	0	2.0
	0.7	1.6	0	0.2	2.5
Balance at 31st March 2010					
- Due under one year	0.3	1.9	0	0.1	2.3
- Due over one year	0.3	0	0	0	0.3
	0.6	1.9	0	0.1	2.6
Additional provisions made in 2010/11	0	0.2	1.4	0.8	2.4
Amounts used in 2010/11	0	(1.9)	0	(0.1)	(2.0)
Balance at 31 March 2011	**0.6**	**0.2**	**1.4**	**0.8**	**3.0**
- Due Under one year	0.3	0.2	1.4	0.8	2.7
- Due over one year	0.3	0	0	0	0.3
	0.6	**0.2**	**1.4**	**0.8**	**3.0**

Description of Provisions held by the Council

<u>**Name of Provision**</u>	<u>**Description of Provision**</u>
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.
Local Pay Review	Provision to meet the costs of implementing the Local Pay Review. The year end balance reflects the estimated value of payments to meet the lump sum payments to staff of implementing the scheme where a reliable estimate can be made. In recognising the potential for such costs the council is not conceding that any such costs will be paid in the future.

Other Provisions — There are a number of provisions that individually are insignificant. In 2010/11 additional provision was made in relation to contract claims made on a major contract. It is anticipated that these claims will be resolved in 2011/12. In recognising these provisions the Council does not concede that these costs will be paid.

23 Borrowing

This heading reflects the borrowing undertaken by the Council to fund its approved capital programme. Any costs of borrowing are reflected in the Income and Expenditure Account as interest charges and the Minimum Revenue Provision for the repayment of debt. Central Government will recognise the costs of any "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.

Total Outstanding 1st April 2009 Principal £ m	Total Outstanding 31st March 2010 Principal £ m	Borrowing Repayable	**Total Outstanding 31 March 2011 Principal £ m**
		Amounts falling due within one year	
0	0	Public Works Loans Board & LOBO	**0**
0	0		**0**
		Amounts falling due in excess of one year	
10.0	10.0	Money Market (LOBO) - see note 23	**10.0**
99.3	122.4	Public Works Loans Board	**152.5**
109.3	132.4		**162.5**
109.3	132.4	**Total**	**162.5**

The table below shows an analysis of the Long Term Borrowing repayable: - (by principal outstanding). This table excludes the one variable PWLB rate loan of £5m the Council has which has a 10 year maximum duration.

Total Principal Outstanding 1st April 2009 £ m	Total Principal Outstanding 31st March 2010 £ m	**Analysis of Loans by Maturity**	**Average Interest Rate**	**Total Principal Outstanding 31st March 2011 £ m**
0	0	Within 1 year	-	**0**
0	0	1 up to 2 years	-	**0**
0	0	2 up to 3 years	4.2%	**4.0**
0	4.0	3 up to 4 years	-	**0**
4.0	0	4 up to 5 years	-	**0**
9.0	17.0	5 up to 10 years	3.7%	**15.0**
7.0	13.0	10 up to 15 years	4.3%	**15.0**
0	3.0	15 up to 20 years	4.3%	**9.8**
0	9.0	20 up to 25 years	4.8%	**11.6**
89.3	86.4	Over 25 years	4.4%	**102.1**
109.3	132.4	Total	4.3%	**157.5**

Lenders Option Borrowers Option (LOBO)

The Council has two LOBO loan (Lenders Option Borrowers Option). 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.

24 Liabilities

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

1st April 2009 £m	31 March 2010 £m		**31 March 2011 £m**
		Liabilities due within 1 year	
0.9	0.8	DCC Transferred Debt	**0**
0.3	0.4	PFI Liability	**0.4**
0	0	Financial Guarantees	**0**
1.2	1.2	**Total due over 1 year**	**0.4**
		Liabilities due over 1 year	
20.5	19.7	DCC Transferred Debt	**0**
10.5	10.1	PFI Liability	**9.7**
0.2	0.2	Financial Guarantees	**0.2**
31.2	30.0	**Total due over 1 year**	**9.9**
32.4	31.2	Total Liabilities	**10.3**

DCC Transferred debt

Deferred Liabilities recognises the “transferred debt” arrangements between Devon County Council and Torbay Council, which arose out of the reorganisation of Local Authorities in England on 1st April 1998. Payments to Devon include principal and interest based upon an apportionment of Devon’s Credit Ceiling prior to transfer as directed by the Local Government changes for England (Payments to Designated Authorities) (Minimum Revenue Provision) Regulations 1995. Payments to Devon County Council are funded by the Council Taxpayers through charges to the Statement of Movement on the General Fund Balance. On 1st October 2010 this debt was repaid by the Council agreeing that the PWLB transfer an equivalent amount of Devon County PWLB debt to the Council. This transfer can be seen in the corresponding increase in the Council’s liability to the PWLB.

Transferred Debt principal outstanding at 31st March 2011 is nil, (2009/10 £20.5m).

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 Authority 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 Authority'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.

PFI Payments

The Authority 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 Income and Expenditure account. Payments remaining to be made under the PFI contract at 31 March 2011 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services * £m	**Reimbursement of Capital Expenditure £m**	**Interest £m**	**Total £000**
Payable in 2011/12	1.6	0.4	0.5	2.5
Payable within 2 to 5 years	6.3	1.8	1.9	10.0
Payable within 6 to 10 years	7.9	2.9	1.8	12.6
Payable within 11 to 15 years	7.9	3.7	0.9	12.5
Payable within 16 to 20 years	2.4	1.3	0.1	3.8
Total	**26.1**	**10.1**	**5.2**	**41.4**

* 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:

2009/10		2010/11
£m		£m
10.8	Balance outstanding at start of year	10.5
(0.3)	Payments during the year	(0.4)
10.5	**Balance outstanding at year-end**	**10.1**

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 (£950,000 2009/10). This is relating to a bank loan and an overdraft facility, in respect of capital work and trading at Occombe Farm. The loan was, in part, restructured by the Trust in January 2010 over a five year period.

As at 31st March 2011the fair value of this guarantee after amortisation was £182,000 (£171,000 2010/11). 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".

25. **Usable Reserves**

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and in the table below:

1st April 2009	31 March 2010		31 March 2011
£m	£m		£m
3.3	3.7	General Fund Reserve	**4.0**
27.4	31.0	Earmarked Reserves – see note 8	**32.8**
0.4	0.4	Usable Capital Receipts Reserve	**0.5**
19.2	19.1	Capital Grants & Contributions Unapplied	**17.0**
50.3	**54.2**	**Total Usable Reserves**	**54.3**

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.

2009/10		2010/11
£m		£m
0.4	**Balance at 1 April**	**0.4**
2.2	Transfer of sale proceeds credited as part of gains/loss on disposal to the Comprehensive/Income and Expenditure Statement.	**0.5**
(2.2)	Transfer to Capital Adjustment Account when applied to finance capital expenditure	**(0.4)**
0.4	**Balance at 31 March**	**0.5**

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.

2009/10		2010/11
£m		£m
19.2	**Balance at 1 April**	**19.1**
17.1	Transfer of capital grants & contributions recognised in the Comprehensive/Income and Expenditure Statement but not yet applied finance capital expenditure.	12.5
(17.2)	Transfer to Capital Adjustment Account when applied to finance capital expenditure	(14.6)
19.1	**Balance at 31 March**	**17.0**

26. **Unusable Reserves**

Movements in the Authority's unusable reserves are detailed in the Movement in Reserves Statement and in the table below:

1st April 2009 £m	31 March 2010 £m		31 March 2011 £m
28.7	32.7	Revaluation Reserve	32.8
184.2	171.4	Capital Adjustment Account	165.6
(0.4)	(0.3)	Financial Instruments Adjustment Account	(0.3)
(112.9)	(166.4)	Pensions Reserve	(76.6)
0	1.1	Collection Fund Adjustment Account	1.8
(2.9)	(3.4)	Accumulating Compensated Absences Adjustment Account	(3.0)
96.7	**35.1**	**Total Unusable Reserves**	**120.3**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment [and Intangible Assets]. 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 are consolidated into the balance on the Capital Adjustment Account.

2009/10		2010/11	
£m		£m	
28.7	**Balance at 1 April**		**32.7**
4.4	Upward revaluation of assets	1.8	
0	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2.5)	
4.4	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		0.7
(0.4)	Difference between fair value depreciation and historical cost depreciation	0.7	
0	Accumulated gains on assets sold or scrapped	0.1	
(0.4)	Amount written off to the Capital Adjustment Account		0.8
32.7	**Balance at 31 March**		**32.8**

Capital Adjustment Account

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

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

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

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2009/10 £m			2010/11 £m
184.2	**Balance at 1 April**		**171.3**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(10.5)	• Charges for depreciation and impairment of non current assets	**(20.0)**	
(0.3)	• Amortisation of intangible assets	**(0.3)**	
(1.5)	• Revenue expenditure funded from capital under statute	**(10.7)**	
0.1	• Notional Rent Credit	**0.1**	
(38.2)	• 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	**(0.3)**	
(50.4)			**(31.2)**
0.4	Adjusting amounts written out of the Revaluation Reserve		**(0.7)**
(50.0)	Net written out amount of the cost of non current assets consumed in the year		**(31.9)**
	Capital financing applied in the year:		
2.2	• Use of the Capital Receipts Reserve to finance new capital expenditure	**0.4**	
11.3	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**4.9**	
17.2	• Application of grants to capital financing from the Capital Grants Unapplied Account	**14.6**	
4.1	• Statutory provision for the financing of capital investment charged against the General Fund	**4.0**	
0.9	• Repayment of Debt Transferred from Devon County Council	**0.4**	
1.3	• Capital expenditure charged against the General Fund	**1.9**	
37.0			**26.2**
0	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		**0**
0.2	Movements in the market value of Assets Held for Sale debited or credited to the Comprehensive Income and Expenditure Statement		**0**
171.3	**Balance at 31 March**		**165.6**

Financial Instruments Adjustment Account

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

2009/10		2010/11	
£m		**£m**	
(0.4)	**Balance at 1 April**		**(0.3)**
0	Financial Instruments incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	
0.1	Proportion of costs incurred in previous financial years to be credited to General Fund Balance in accordance with statutory requirements	0	
0.1	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
(0.3)	**Balance at 31 March**		**(0.3)**

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

2009/10		**2010/11**
£m		**£m**
(112.9)	**Balance at 1 April**	**(166.4)**
(46.1)	Actuarial (gains) or losses on pensions assets and liabilities	**61.5**
(15.8)	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	**20.1**
8.4	Employer's pensions contributions and direct payments to pensioners payable in the year	**8.2**
(166.4)	**Balance at 31 March**	**(76.6)**

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.

2009/10		**2010/11**
£m		**£m**
0	**Balance at 1 April**	**1.1**
1.1	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	**0.7**
1.1	**Balance at 31 March**	**1.8**

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.

2009/10			2010/11
£m			£m
(2.9)	**Balance at 1 April**		**(3.4)**
2.9	Settlement or cancellation of accrual made at the end of the preceding year	3.4	
(3.4)	Amounts accrued at the end of the current year	(3.0)	
(3.4)	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		**(3.0)**
(3.4)	**Balance at 31 March**		**(3.0)**

27. **Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

2009/10		2010/11
£m		£m
(2.5)	Interest received	(4.5)
6.7	Interest paid	7.3
4.2	**Total Interest Received & Paid**	2.8

28. **Cash Flow Statement – Investing Activities**

2009/10		2010/11
£m		£m
44.6	Purchase of property, plant and equipment, investment property and intangible assets	32.0
25.0	Purchase of short-term and long-term investments	17.8
(29.7)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(9.9)
(0.3)	Proceeds from shot-term and long-term investments	(0.3)
39.6	**Net cash flows from investing activities**	**39.6**

29. **Cash Flow Statement – Financing Activities**

2009/10		2010/11
£m		£m
(25.1)	Cash receipts of short- and long-term borrowing	(10.0)
1.1	Cash payments for the reduction of the outstanding liabilities relating to transferred debt and on-balance sheet PFI contracts	0.8
2.0	Repayments of short- and long-term borrowing	0
(22.0)	**Net cash flows from financing activities**	**(9.2)**

30. **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 Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's 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 but allocated to services but excluded from management reports.
- 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.

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	**Corporate Support**	**People**	**Environment**	**Operational Support**	**Total**
2010/11	**£m**	**£m**	**£m**	**£m**	**£m**
Fees, charges & other					
Service income	(3.9)	(18.6)	(19.1)	(7.5)	**(49.1)**
Government grants	(2.1)	(103.5)	(2.9)	(80.0)	**(188.5)**
Total Income	**(6.0)**	**(122.1)**	**(22.0)**	**(87.5)**	**(237.6)**

Employee expenses	7.6	86.8	14.4	8.8	**117.6**
Other service expenses	17.6	100.9	38.2	96.0	**252.7**
Total Expenditure	**25.2**	**187.7**	**52.6**	**104.8**	**370.3**
Net Expenditure	**19.2**	**65.6**	**30.6**	**17.3**	**132.7**

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.

	2009/10	**2010/11**
	£m	**£m**
Net expenditure in the Directorate Analysis	122.8	132.7
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	6.6	(13.8)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(12.0)	(12.9)
Cost of Services in Comprehensive Income and Expenditure Statement	**117.4**	**106.0**

Directorate Income and Expenditure	**Corporate Support**	**People**	**Environment**	**Operational Support**	**Total**
2009/10 Comparative Figures	**£m**	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service income	(1.7)	(21.5)	(21.4)	(10.4)	**(55.0)**
Government grants	(0.4)	(103.2)	(3.0)	(73.2)	**(179.8)**
Total Income	**(2.1)**	**(124.7)**	**(24.4)**	**(83.6)**	**(232.8)**
Employee expenses	6.3	88.3	12.5	10.1	**117.2**
Other service expenses	5.2	103.0	41.2	91.0	**240.4**
Total Expenditure	**11.5**	**191.3**	**53.7**	**101.1**	**357.6**
Net Expenditure	**9.4**	**66.6**	**29.3**	**17.5**	**122.8**

Reconciliation to Subjective Analysis

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.

2010/11	**Directorate Analysis**	**Amounts not reported to management for decision making**	**Amounts not included in I&E**	**Allocations of Recharges**	**Cost of Services**	**Corporate Amounts**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service income	(49.1)	(35.2)	2.1	12.9	**(69.3)**	(0.8)	**(70.1)**
Interest and investment	0	0	0	0	**0**	(15.0)	**(15.0)**
Income from council tax	0	0	0	0	**0**	(62.7)	**(62.7)**
Government grants and contributions	(188.5)	(15.2)	0.5	0	**(203.2)**	(77.8)	**(281.0)**
Total Income	**(237.6)**	**(50.4)**	**2.6**	**12.9**	**(272.5)**	**(156.3)**	**(428.8)**
Employee expenses	117.6	2.1	0	0	**119.7**	0	**119.7**
Other service expenses	252.7	14.3	(15.5)	(12.9)	**238.6**	0.2	**238.8**
Depreciation, amortisation and impairment	0	20.2	0	0	**20.2**	0	**20.2**
Interest Payments	0	0	0	0	**0**	25.2	**25.2**
Precepts & Levies	0	0	0	0	**0**	0.2	**0.2**
Gain or Loss on Disposal of Fixed Assets	0		0	0	**0**	0.3	**0.3**
Total	**370.3**	**36.6**	**(15.5)**	**(12.9)**	**378.5**	**25.9**	**404.4**
(Surplus) or	**132.7**	**(13.8)**	**(12.9)**	**0**	**106.0**	**(130.4)**	**(24.4)**

2009/10 Comparative figures	**Directorate Analysis**	**Amounts not reported to management for decision making**	**Amounts not included in I&E**	**Allocations of Recharges**	**Cost of Services**	**Corporate Amounts**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service income	(55.0)	(0.1)	4.2	11.9	**(39.0)**	(2.4)	**(41.4)**
Interest and investment income	0	(0.2)	0	0	**(0.2)**	(12.3)	**(12.5)**
Income from council tax	0	0	0	0	**0**	(60.6)	**(60.6)**
Government grants and contributions	(179.8)	(4.0)	0.6	0	**(183.2)**	(89.0)	**(272.2)**
Total Income	**(234.8)**	**(4.3)**	**4.8**	**11.9**	**(222.4)**	**(164.3)**	**(386.7)**
Employee expenses	117.0	(1.4)	0	0	**115.6**	0	**115.6**
Other service expenses	240.6	0	(16.8)	(11.9)	**211.9**	0.2	**212.1**
Depreciation, amortisation and impairment	0	12.3	0	0	**12.3**	0	**12.3**
Interest Payments	0	0	0	0	**0**	24.2	**24.2**
Precepts & Levies	0	0	0	0	**0**	0.2	**0.2**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	38.3	**38.3**
Total expenditure	**357.6**	**10.9**	**(16.8)**	**(11.9)**	**339.8**	**62.9**	**402.7**
(Surplus) or deficit on the provision of services	**122.8**	**6.6**	**(12.0)**	**0**	**117.4**	**(101.4)**	**16.0**

31. **Trading Operations**

The Council does not have any trading operations that are operated on a fully commercial basis. Where a service does 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, services to school academies and external print work.

32. **Agency Services**

The Authority provides professional services to the Environment Agency in relation to rivers. The value of this work is less than £200,000.

33. **Pooled Budgets**

Under section 75 of the NHS Act 2006, the Authority has 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. The Authority and the Trust 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 same proportions are used to meet any deficit or share any surplus arising on the pooled budget at the end of each financial year.

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

2009/10 £m			2010/11 £m	
		Funding provided to the pooled budget:		
0.5		• the Council	0.5	
0.5		• the Trust	0.5	
	1.0			1.0
		Expenditure met from the pooled budget:		
(0.5)		• The Council	(0.5)	
(0.5)		• the Trust	(0.5)	
	(1.0)			(1.0)
	0	Net surplus arising on the pooled budget during the year		0
	0	Authority share of 50% of the net surplus arising on the pooled budget		0

34. **Members' Allowances**

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

2009/10 £000's		2010/11 £m
475	Allowances – Basic and Special Responsibility	466
6	Expenses	5
481	Total	471

The current Allowances' scheme can be found on the Council's website at www.torbay.gov.uk/index/council/councillors-democracy/constitution.htm.

35. **Officers' Remuneration**

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

		Salary £000	**Expenses £**	**Compen-sation for Loss of Office £**	**Pension Contribution at "common rate" £**	**Total**
Elizabeth Raikes (Chief Executive)	**2010/11**	**151**	**1**	**0**	**23**	**175**
	2009/10	155	1	0	24	180
Caroline Taylor (Deputy Chief Executive)	**2010/11**	**109**	**1**	**0**	**16**	**126**
	2009/10	109	1	0	16	126
Carol Tozer (People Commissioner & Director of Childrens Services)	**2010/11**	**125**	**1**	**0**	**19**	**145**
	2009/10	125	1	0	19	145
Charles Uzzell (Environment Commissioner)	**2010/11**	**109**	**1**	**0**	**16**	**126**
	2009/10	109	1	0	16	126
Clare Tanner (Operational Commissioner)	**2010/11**	**91**	**1**	**0**	**14**	**106**
	2009/10	91	1	0	14	106
Richard Thorpe Chief Finance Officer	**2010/11**	**78**	**1**	**0**	**12**	**91**
	2009/10	80	1	0	12	93
Anthony Butler (Monitoring Officer)	**2010/11**	**50**	**0**	**0**	**7**	**57**
	2009/10	-	-	-	-	-
Keith Stevens (Monitoring Officer) *	**2010/11**	**5**	**0**	**0**	**0**	**5**
	2009/10	59	0	0	0	59

* The Monitoring Officer was employed on a contractual basis not an employee of the Council.

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 2009/10			Remuneration Band	**Number of Employees by employer 2010/11**		
Council	Schools - Council	Schools - Governing Body		**Council**	**Schools - Council**	**Schools - Governing Body**
13	16	18	£50,000 to £54,999	**12**	**13**	**11**
12	5	9	£55,000 to £59,999	**7**	**10**	**10**
2	7	3	£60,000 to £64,999	**4**	**4**	**8**
4	2	1	£65,000 to £69,999	**2**	**3**	**2**
0	0	0	£70,000 to £74,999	**3**	**1**	**1**
2	3	2	£75,000 to £79,999	**4**	**1**	**1**
2	0	0	£80,000 to £84,999	**5**	**1**	**1**
1	1	0	£85,000 to £89,999	**0**	**1**	**0**
2	0	0	£90,000 to £94,999	**2**	**1**	**0**
0	1	1	£95,000 to £99,999	**0**	**1**	**0**
0	0	1	£100,000 to £104,999	**0**	**0**	**1**
2	0	1	£105,000 to £109,999	**2**	**0**	**0**
0	0	0	£110,000 to £114,999	**0**	**0**	**0**
0	0	0	£115,000 to £119,999	**0**	**0**	**0**
0	0	0	£120,000 to £124,999	**0**	**0**	**0**
1	0	0	£125,000 to £129,999	**1**	**0**	**0**
0	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	**0**	**0**	**0**
0	0	0	£145,000 to £149,999	**0**	**0**	**0**
0	0	0	£150,000 to £154,999	**0**	**0**	**0**
1	0	0	£155,000 to £159,999	**1**	**0**	**0**
42	**35**	**36**		**43**	**36**	**35**

36. External Audit Costs

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

2009/10 £000		2010/11 £000
238	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	**227**
16	Fees payable to the Audit Commission in respect of statutory inspections	**0**
49	Fees payable to the Audit Commission for the certification of grant claims and returns for the year	**34**
2	Fees payable in respect of other services provided by the Audit Commission during the year	**4**
305	Total	**265**

37. Dedicated Schools Grant (DSG)

DSG is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under-spends on the two elements are required to be accounted for separately. The Council is able to supplement the Schools Budget from its own resource but for this year it has chosen not to do so.

The Council has fully deployed the DSG grant to support the Schools Budget in accordance with the relevant legislation. This was evidenced by the Chief Finance Officer's certification of the Section 251 (Schools outturn) statement to the Department for Education.

Details of the deployment of DSG receivable for 2010/11 are as follows:

Schools Budget Funded by Dedicated Schools Grant 2010/11			
	Central Expenditure	**Individual Schools Budget**	**Total**
	£m	£m	**£m**
Final DSG for 2010/11	9.5	63.7	**73.2**
Plus			
Brought forward from 2009/10	0.3	0	**0.3**
Less			
Carry forward to 2011/12 agreed in advance	0	0	**0**
Agreed budgeted distribution in 2010/11	9.8	63.7	**73.5**
Less Actual Central Expenditure	(9.4)	-	**(9.4)**
Less Actual ISB deployed to schools	-	(63.7)	**(63.7)**
Carry forward to 2011/12	0.4	0	**0.4**

38. **Grant Income**

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

2009/10		2010/11
£m		**£m**
Credited to Taxation and Non Specific Grant Income		
10.5	Revenue Support Grant	**7.5**
7.9	Area Based Grant	**12.2**
45.6	NNDR Redistribution	**51.5**
0.6	Grant re PFI Finance costs	**0.6**
24.4	Capital Grants & Contributions	**6.0**
89.0	**Total**	**77.8**

2009/10 £m		2010/11 £m
Credited to Services		
70.6	Dedicated Schools Grant (Department of Education)	**71.1**
73.7	Benefit Subsidy & Admin Grant (Dept of Work & Pensions)	**79.4**
10.2	Standards Fund (Department of Education)	**11.3**
7.7	Post 16 Funding (Learning & Skills Council)	**12.1**
17.4	Other Central Government Grants – Revenue	**14.1**
9.6	Other Central Government Grants – Refcus	**15.2**
189.2	**Total**	**203.2**

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver.

The balances at the year-end are as follows:

1 April 2009 £m	31 March 2010 £m	Capital Grants & Contributions - Receipts in Advance	**31 March 2011 £m**
1.1	2.0	Grants	**5.6**
1.9	1.3	Contributions	**1.2**
3.0	**3.3**	**Total**	**6.8**

39. **Related Parties**

The Authority 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 Authority. Any balances due to/from these related parties are included within the Council's debtor and creditor figures.

Central Government

Central government has effective control over the general operations of the Authority– it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 38.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 34.

A Members Record of Interests is maintained and is available for public inspection. In addition for 2010/11 the following declarations were made:-

Councillor J Richards declared that she is a director of J & J Catering (Devon)Ltd and was granted a street traders licence during 2010.

Councillor D Thomas declared that he is a trustee of Citizens Advice Bureau (Torbay) and holds a street traders licence.

The Council maintains a Members Register of Gifts & Hospitality. During 2010/11 Members received hospitality (over the value of £25) from the following organisations/individuals:-

Plant & Waste recycling show, Preston Community Partnership, TOR2, Mr David Hanbury, PAWRS and Trinity Sailing Trust

Officers

Officers have declared interests in the following

Mrs S Cheriton declared that she is a Director of Torbay Coast and Countryside Trust.

Mrs C Taylor declared that her husband is a freelance musician/composer and occasionally works in schools within Torbay on specific projects and may be involved in cultural projects.

The Council maintains a Register of Gifts & Hospitality. During 2010/11 officers received hospitality and prizes (over the value of £25) in the course of their employment from the following organisations/individuals:-

TOR2, Haulfryn Group, AMF Bowling, Bygones, Clarks Shoes, Cotton Eyed Joes, Dartmouth Steam Railway, Hanbury's Fish Restaurant, HiFlyer, Living Coasts, Matta-Bharat, Marina Restaurant, McKinlay Martin Hair Saloon, Neveah Spa, Number 7 Fish Restaurant, Osborne Hotel, Pizza Express, Simla Spice, Steps Footwear, The Boathouse, The Cut, Toorak Hotel, Torbay Bookshop, Torbay Leisure Centre, Waitrose, Waves Leisure Pool, Yum Sing Restaurant, Serco Local Government, Tribal Consultants, Jacobs Engineering UK Ltd and Ann Johns.

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

Torbay Care Trust

In December 2005 the Council entered a “partnership agreement” with Torbay Care Trust, (formally 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.

2010/11 £m	Partnership Agreement Memorandum Account	2010/11 £m
45.6	Health Funding	44.1
41.5	Torbay Council Funding	43.5
87.1	**Total Pooled Budget Funding**	**87.6**
31.2	Health Commissioned Expenditure	29.2
27.1	Pooled Provider Expenditure	27.9
29.6	Net Social Care Commissioned Expenditure	30.2
87.9	**Total Pooled Budget Expenditure**	**87.3**
0.8	**Surplus Deficit**	**(0.3)**

Joint Equipment Store

The Authority has a pooled budget arrangement with Torbay Care Trust for the provision of a joint equipment store. Transactions and balances outstanding are detailed in Note 33.

Joint Committee – 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. The impact on the Council’s accounts of this change is not material. Torbay’s contribution to the partnership for 2010/11 was £0.4m (2009/10 £0.4m).

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

2009/10	**Devon Audit Partnership**	**2010/11**	**2010/11**
Torbay		**Total**	**Torbay**
£m	Income & Expenditure Account:	**£m**	**£m**
(0.51)	Income	**(1.69)**	**(0.46)**
0.49	Expenditure	**1.67**	**0.45**
(0.02)	Surplus/(Deficit) transferred to/from reserve	**(0.02)**	**(0.01)**
£m	Balance Sheet:		
0.02	Current Assets & Liabilities	**0.11**	**0.03**
(0.02)	Reserves	**(0.11)**	**(0.03)**
0		**0**	**0**

Precepts

The total cost of these services is disclosed within the Income and Expenditure Account. Within that total the precepts and levies paid in 2009/10 are as follows:

2009/10 £000's		**2010/11 £000's**
38	Environment Agency	**39**
55	Devon Sea Fisheries	**56**
182	Brixham Town Council	**187**

Entities Controlled or Significantly Influenced by the Authority

TOR2 Ltd

This company, limited by share and part controlled by Torbay Council, started trading in July 2011. The Council holds 19.99% of the shares with the balance being held by May Gurney limited.

This company was set up as a joint venture after a tender process for a 10 year contract to supply the Council with a range of services previously provided by the Council itself such as waste collection and street cleaning.

For financial reporting this relationship falls within the definition of an associate which, if material, would require the Council to produce group accounts. Under the equity method for accounting for associates prescribed in IAS 31 only the net assets need to be disclosed, these were considered to be immaterial. A summary of the TOR2 accounts for the part year 2010/11 is shown below:-

Torbay Council's 20% share	TOR2 Limited	TOR2	**Torbay Council's 20% share**
2009/10		2010/11	**2010/11**
	Profit and Loss Account for the period ended 31 March 2011		
£m		£ m	**£m**
-	Gross Turnover	10.8	**2.2**
-	Less Operating Costs	(11.8)	**(2.4)**
-	Operating Profit/(Loss)	(1.0)	**(0.2)**
-	Interest Receivable	0	**0**
-	Interest Payable	(0.1)	**0**
-	Profit/ (Loss) before Taxation	(1.1)	**(0.2)**
-	Less Taxation	0.3	**0.1**
-	**Profit/ (Loss) after Taxation**	(0.8)	**(0.1)**
	Balance Sheet as at 31st March 2011		
-	Fixed Assets	2.5	**0.5**
-	Current Assets	5.6	**1.1**
-	Less Current Liabilities	(7.3)	**(1.5)**
-	Total Assets less Current Liabilities	0.8	**0.1**
-	Less Long Term Creditors & Provisions	(1.6)	**(0.3)**
-	**Net Assets**	(0.8)	**(0.2)**
-	**Profit and Loss Account for the period ended 31 March 2011**		
-	Share Capital	0	**0**
-	Retained Earnings	(0.8)	**(0.2)**
-	**Net Equity**	**(0.8)**	**(0.2)**

English Riviera Tourist Board (ERTC) Limited

This company, limited by share and controlled by Torbay Council, started trading on 1st October 2011.

For financial reporting this relationship falls within the definition of a subsidiary this, if material, would require the Council to produce group accounts. This would require full consolidation of the ERTC accounts within the Council's group accounts. For 2010/11 these were considered to be immaterial. A summary of the ERTC accounts for the part year 2010/11 is shown below:-

2009/10	ERTC Limited	ERTC 2010/11
	Profit and Loss Account for the period ended 31 March 2011	
£m		**£ m**
-	Gross Turnover	**0.4**
-	Less Operating Costs	**(0.3)**
-	Less Exceptional Items	**(0.3)**
-	Operating Profit/(Loss)	**(0.2)**
-	Profit/ (Loss) before Taxation	**(0.2)**
-	Less Taxation	**0**
-	**Profit/ (Loss) after Taxation**	**(0.2)**
£m	**Balance Sheet as at 31st March 2011**	
-	Current Assets	**0.2**
-	Less Current Liabilities	**(0.2)**
-	Total Assets less Current Liabilities	**0**
-	Less Long Term Creditors & Provisions	**0**
-	Pension Assets/(Liabilities)	**(0.1)**
-	**Net Assets including pension assets**	**(0.1)**
	Profit and Loss Account for the period ended 31 March 2011	
-	Profit and Loss Account	**(0.1)**
-	**Members' Funds - non-equity**	**(0.1)**

The movement in the profit and loss account from an operational surplus position to a deficit is due to the impact of the IAS19 retirement benefits assessment as at 31st March 2011.

Torbay Enterprise Agency

Torbay Enterprise Agency Limited is a private company limited by guarantee without share capital under the control of Torbay Council. The nature of the company is to support businesses within Torbay. Torbay Council staff and Councillors comprise all members and directors of this company. The company is now not actively trading but has not yet been closed down.

The PLUSS Organisation Ltd

The PLUSS Organisation Ltd is a company limited by guarantee with no share capital. Devon County Council, Plymouth City Council, Torbay Council and Somerset County Council each have an equal 'share' in the company and equal voting rights. The Company's membership structure does not allow a dividend payment, and all profits are retained by PLUSS Organisation Ltd for the future development of services.

For financial reporting this relationship falls within the definition of an associate which, if material, would require the Council to produce group accounts. Under the equity method for accounting for associates prescribed in IAS31 only the net assets need to be disclosed, these were considered to be immaterial. A summary of PLUSS accounts for the year 2010/11 is shown below:-

Torbay Council's 25% share	The PLUSS Organisation Ltd	PLUSS	**Torbay Council's 25% share**
2009/10		2010/11	**2010/11**
	Profit and Loss Account for the period ended 31 March 2011		
£m		£ m	**£m**
5.4	Gross Turnover	23.3	**5.8**
(5.4)	Less Operating Costs	(23.2)	**(5.8)**
0	Operating Profit/(Loss)	0.1	**0**
0	Gains/(Losses) on Disposals	0.1	**0**
0	Interest Receivable	0	**0**
0	Interest Payable	0	**0**
(0.1)	Finance Income	2.5	**0.7**
(0.1)	Profit/ (Loss) before Taxation	2.7	**0.7**
0	Less Taxation	(0.6)	**(0.2)**
(0.1)	**Profit/ (Loss) after Taxation**	2.1	**0.5**
£m	**Balance Sheet as at 31st March 2010**		
0.2	Fixed Assets	1.6	**0.4**
1.1	Current Assets	5.2	**1.3**
(0.6)	Less Current Liabilities	(4.3)	**(1.1)**
0.7	Total Assets less Current Liabilities	2.5	**0.6**
(0.5)	Less Long Term Creditors & Provisions	(1.2)	**(0.3)**
(1.2)	Pension Assets/(Liabilities)	(0.4)	**(0.1)**
(1.0)	**Net Assets including pension assets**	0.9	**0.2**

	Profit and Loss Account for the period ended 31 March 2010 Continued		
	Capital and Reserves		
0.1	Profit and Loss Reserve	2.6	**0.7**
(1.1)	Pension Reserve	(1.7)	**(0.5)**
(1.0)	**Members' Funds - non-equity**	**0.9**	**0.2**

The movement in the balance sheet from a “net asset” position to a “net liability” position is primarily due to the impact of the IAS19 assessment of as at 31st March.

Arising from the creation of PLUSS on 1st August 2005 as a Local Authority controlled company for the provision of supported employment with the Council having an equal share along with Devon County Council, Plymouth City Council and Somerset County Council, the Council entered a number of agreements to support the new company. These include;

- The guarantee of an overdraft to Barclays bank to a value of £0.125 million.
- The issue of a loan to the new company to cover working capital of £0.231 million. This loan is shown in the Council’s long term debtors and repayments are due to start in 2011/12.

PLUSS has been admitted to the Devon County Pension Fund. The former Council staff are now employed by PLUSS and as a result the Council has guaranteed to meet any pension related financial liabilities arising on staff prior to transfer. The estimate of the value of this guarantee in 2005 was £0.4 million.

Connexions Cornwall and Devon Ltd

The company was incorporated on 7 March 1995 as a Company limited by guarantee not having a share capital. The council had an equal share with 13 other public sector bodies. With effect from 1st April 2008 the company resolved to become a local authority controlled company with 4 members. The members are Cornwall County Council, Devon County Council, Plymouth Council and Torbay Council, each member has an equal share in the company. The company aims to help young people and adults engage in learning and work. For financial reporting this relationship falls within the definition of an associate; this technically requires the Council to produce group accounts. Group accounts have not been produced as the net assets and profit are not considered to be material.

Torbay Economic Development Agency Limited (limited by guarantee)

This company has had no financial transactions and is expected to be closed in 2011/12. A new company (limited by share) with the aim of supporting regeneration in Torbay controlled by the Council was set up on the 14th April 2011 and commenced trading on 1st May 2011.

Torbay Development Agency Limited

This company has had no financial transactions and is expected to be closed in 2011/12.

SWERCOTS Ltd

This is the South West of England Regional Co-ordination of Trading Standards and represents the 15 South West Regional Authorities. The company was established in 2004 as a company limited by guarantee to operate 'Consumer Direct' a Central Government funded initiative. The payment of a £10 membership fee gives Torbay Council membership of the board with Torbay represented by a councillor. There are no transactions/liabilities associated with Torbay Council's membership other than the £10 initial one-off fee. For financial reporting this relationship has been treated as an investment.

South West Grid for Learning Trust

The company 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 in the Torbay area. In March 2010 there was a “yes” vote for a Torquay BID and the levy from business within this district was due from May 2010. For financial reporting purposes this relationship has been treated as an investment. In February 2011 there was a “yes” vote for a Paignton BID,

The Council collects the BID levy on behalf of the Torquay BID on an agency basis. The value of the levy collected by the Council and paid to the company in 2010/11 was £0.2 million. (09/10 n/a)

<u>Entities Funded by the Authority</u>

The Council paid a management fee of £239,000 (2009/10: £210,000) to the Torbay Coast and Countryside Trust. Although the Council has representation on the Trustee Board it is not felt to have a significant influence over Trust polices. The Council has agreed to act as a guarantor to the Torbay Coast and Countryside Trust for £975,000. This is relating to an overdraft facility that was originally in respect of capital work and initial trading at Occombe Farm but now covers the whole TCCT activities.

The Council contributed a deficit funding payment of £752,000 (2009/10 £605,000) to Riviera Centre International Limited, a not for profit company. The Council does not hold assets or liabilities in the Company.

The Council provided £177,000 (2009/10 £208,000) to the Torbay Citizen’s Advice Organisations Bureau for its annual agreement plus any additional support. The Council does not have any influence over policies.

<u>Trust Funds</u>

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 2011 was £44,000 (£65,000 2009/10).

Of this balance £38,000 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.

40. 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 Notes 12 reconciling the movement over the year in the Property, Plant and Equipment.

During 2011/12, the Authority has recognised an impairment loss of £13.6 in total. Of this sum £4.6 million related to the Brixham Regeneration Project including Brixham Fish Quay and £3.6 million related to the Paignton Library Hub. Both were major capital projects that were substantially completed in 2010/11 and were then subsequently valued on an operational use basis linked to rental streams where appropriate. This valuation on completion gave rise to these two significant impairment losses.

41. Contingent Liabilities

The Council has a number of contingent liabilities in relation to pension and overdraft guarantees.

PLUSS has been admitted to the Devon County Pension Fund. The former Council staff are now employed by PLUSS and as a result the Council has guaranteed to meet any pension related financial liabilities arising on staff prior to transfer. The latest estimate of the value of this guarantee is £0.4 million. In addition the Council agreed to guarantee an overdraft to Barclays Bank to a value of £0.125 million.

The Council has also given pension guarantees for a number of services where the Council has an involvement including the Chief Executive for the South West Grid for Learning, Connexions Cornwall & Devon Limited, Torquay Museum, and Eden Catering. There is no pension guarantees for TOR2 as in 2010/11 the Council funded a £0.250 million bond to meet any liabilities. As at 31st March 2011 no pension guarantee was given to ERTC limited but a guarantee is expected to be agreed in 2011/12.

The cost of landfill continues to be a significant issue within Torbay Council, the Council have identified that there is a possibility of total cumulative fines to 2019/20 of £27.5m if action is not taken to address landfill issues and if adequate LATS trading does not take place. The proposed PFI scheme for an Energy From Waste Facility with Plymouth City Council and Devon County Council will mitigate risk and in 2010/11 a preferred contractor (MVV Environmental) was chosen by the three Councils and planning permission for the facility is expected to be submitted in 2011/12.

Linked to the Termination Benefit note (42) the Council as part of the budget reductions required over the next few years is offering the option of voluntary redundancy to its staff. There is uncertainty as to the number of staff who will accept this offer. Where there is some certainty over the timing and costs of staff terminations these have been reflected in the 2010/11 accounts and included in the Termination Benefit note below.

42. Termination Benefits

In 2010/11 the Authority started the process to terminate the contracts of a number of employees and announced plans that would result in further terminations in 2011/12, incurring an estimated liability of £1.4 million as at year end. Of this total £0.3 million is payable to 4 Executive Heads of Service in the form of redundancy payments and strain payments to the Devon County Pension fund. The remaining £1.1 million in relation to over 30 officers from a range of services who were made redundant as part of the Authority's budget reductions.

43 Capital Expenditure and Capital Financing

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

2009/10 £m		**2010/11 £m**
123.6	*Opening Capital Financing Requirement*	**129.7**
	Capital investment	
40.8	Property, Plant and Equipment	**29.2**
0	Investment Properties	**0**
0.1	Intangible Assets	**0.3**
8.0	Revenue Expenditure Funded from Capital under Statute	**14.3**
	Sources of finance	
(2.3)	Capital receipts	**(0.4)**
(34.0)	Government grants and other contributions	**(28.9)**
	Sums set aside from revenue:	
(1.5)	• Direct revenue contributions	**(2.2)**
(4.1)	• MRP	**(4.0)**
(0.9)	• DCC Transferred Debt	**(0.4)**
129.7	*Closing Capital Financing Requirement*	**137.6**
	Explanation of movements in year	
4.9	Increase in underlying need to borrowing (supported by government financial assistance)	**4.2**
6.2	Increase in underlying need to borrowing (unsupported by government financial assistance)	**8.1**
(5.0)	Provision for repayment of borrowing (MRP)	**(4.4)**
6.1	*Increase/(decrease) in Capital Financing Requirement*	**7.9**

44. **Leases**

Authority as Lessee

Operating Leases

The Authority has acquired its fleet of refuse collection vehicles by entering into operating leases, with typical lives of seven years. Payments in 2010/11 totalled £0.1 million.

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2010 £m	Total payments due classified by year of expiry of primary lease term	31 March 2011 £m
0.1	Not later than one year	**0**
0	Later than one year and not later than five years	**0**
0	Later than five years	**0**
0.1		**0**

From July 2010 all Council operating leases for vehicles were sub-let to TOR2. The Council will not receive any sublease payments where a lease is in its "primary" period. However TOR2 will reimburse the Council for any costs of any leases extended into a "secondary" period.

The Authority 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 could reduce future payments if enacted. Payments in 2010/11 totalled £0.5 million.

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

31 March 2010 £m	Lease Renewal Period	31 March 2011 £m
0.5	Not later than one year	**0.5**
2.3	Later than one year and not later than five years	**2.2**
1.4	Later than five years	**0.9**
4.2		**3.6**

Finance Leases

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

Authority as Lessor

Operating Leases

The Authority leases out property under operating leases for the following purposes:

- for the provision of services, such as Golf Clubs, Crematorium and Marinas.
- for economic development purposes to provide suitable affordable accommodation for local businesses

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2010 £m		31 March 2011 £m
2.5	Not later than one year	**2.5**
10.2	Later than one year and not later than five years	**9.2**
56.3	Later than five years	**54.7**
69.0		**66.4**

Finance Leases

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

45. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the authority contributes towards the 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 Authority 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 2010/11, the Council paid £5.4 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14% of pensionable pay. The figures for 2009/10 were £5.4m and 14.0%.

In 2010/11 the employers' contribution was 14.1% and no termination benefits were awarded.

There were no contributions remaining payable at the year-end. The payments for 2011/12 are estimated to be less due to some schools moving to be Academy schools.

46. Defined Benefit Pension Schemes

Participation in pension schemes

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

The authority 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 Authority 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.

The introduction of IFRS has no impact on the 2009/10 balance sheet values of the pension liability (and reserve).

Analysis of Results:

The Current Service costs are £5 million higher in 2010/11 compared to 2009/10 due to a reduction in the "real discount rate" and changes from results of the triennial review as at 31st March 2010 which included changes in assumptions in relation about mortality rates. Employee and employer contributions are slightly lower compared to the previous year due to the transfer of staff from the scheme in relation to service changes in relation to TOR2, English Riviera Tourist board and Academy schools,

There is a decrease in the net pension interest cost and expected return on pension assets of £4m primarily due to higher returns on scheme assets based the April 2010 position.

The significant changes are on the balance sheet value of the pension liability (and on the corresponding pension reserve). The decrease of £89 million in the liabilities in the fund is primarily due to three factors:

- a £8 million reduction in liability as a result of staff transferring out of the scheme in relation to service changes in relation to TOR2, English Riviera Tourist board and Academy schools,

- a £28 million reduction in liability based on benefits accrued to date following the Coalition government's announcement to link pension increases to the (lower) CPI index rather then the RPI and

- a £50 million reduction in liability as a result of changes in actuarial assumptions including future changes in benefits in relation to CPI and other factors such as the rate of salary increases which increase the "real discount rate".

Transactions relating to post employment benefits

The cost of retirement benefits are 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 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:

	Local Government Pension Scheme £m		**Discretionary Benefits Arrangements £m**	
Comprehensive Income and Expenditure Statement	**2009/10**	**2010/11**	**2009/10**	**2010/11**
Cost of Services:				
• current service cost	6.0	**10.8**	0	**0**
• past service costs	0	**(27.3)**	0	**(0.7)**
• settlements and curtailments	0.5	**(7.9)**	0	**0**
Financing and Investment Income and Expenditure				
• interest cost	16.7	**17.2**	0.6	**0.5**
• expected return on scheme assets	(8.0)	**(12.7)**	–	**–**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	15.2	**(19.9)**	0.6	**(0.2)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
• actuarial (gains) and losses	45.3	**(60.3)**	0.9	**(1.2)**
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	60.5	**(80.2)**	1.5	**(1.4)**
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	(60.5)	**80.2**	(1.5)	**1.4**

Comprehensive Income and Expenditure Statement	Local Government Pension Scheme £m		Discretionary Benefits Arrangements £m	
	2009/10	**2010/11**	**2009/10**	**2010/11**
Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to scheme	7.8	**7.6**		
• retirement benefits payable to pensioners			0.6	**0.6**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement over five years to the 31 March 2011 is a loss of £16 million. (Cumulative loss of £36m to 31/03/10)

Assets and liabilities in relation to post employment benefits

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

	Funded liabilities: Local Government Pension Scheme £m		Unfunded liabilities: Discretionary Benefits £m	
	2009/10	**2010/11**	**2009/10**	**2010/11**
Opening balance at 1 April	(253.0)	**(355.8)**	(9.4)	**(10.3)**
Current service cost	(6.0)	**(10.8)**	0	**0**
Interest cost	(16.7)	**(17.2)**	(0.6)	**(0.5)**
Contributions by scheme participants	(2.8)	**(2.8)**	–	**–**
Actuarial gains and losses	(85.7)	**66.2**	(0.9)	**1.2**
Benefits paid	8.3	**10.1**	0.6	**0.6**
Past service costs	0	**27.3**	0	**0.7**
Curtailments	(0.4)	**(0.3)**	0	**0**
Settlements	0.5	**19.5**	0	**0**
Closing balance at 31 March	(355.8)	**(263.8)**	(10.3)	**(8.3)**

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

	Local Government Pension Scheme £m	
	2009/10	**2010/11**
Opening balance at 1 April	149.5	**199.6**
Expected rate of return	8.0	**12.7**
Actuarial gains and losses	40.4	**(5.9)**
Employer contributions	7.8	**8.2**
Contributions by scheme participants	2.8	**2.8**
Benefits paid	(8.2)	**(10.6)**
Settlements	(0.6)	**(11.3)**
Closing balance at 31 March	199.7	**195.5**

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 £14.2m (2009/10: £48.4m).

Scheme history

	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Present value of liabilities:						
Local Government Pension Scheme	(225.0)	(242.6)	(228.7)	(253.0)	(355.8)	**(263.8)**
Discretionary Benefits	(9.4)	(9.7)	(9.2)	(9.4)	(10.2)	**(8.3)**
Fair value of assets in the Local Government Pension Scheme	167.0	183.0	182.1	149.5	199.6	**195.5**
Surplus/(deficit) in the scheme:						
Local Government Pension Scheme	(58.0)	(59.6)	(46.6)	(103.5)	(156.2)	**(68.3)**
Discretionary Benefits	(9.4)	(9.7)	(9.2)	(9.4)	(10.2)	**(8.3)**
Total	(67.4)	(69.3)	(55.8	(112.9)	(166.4)	**(76.6)**

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £77 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet reducing the net worth of the Council to £175 million. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased 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 2012 is £7.5 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £0.6 million.

Basis for estimating assets and liabilities

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 being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2009/10	**2010/11**	**2009/10**	**2010/11**
Long-term expected rate of return on assets in the scheme:				
Equity investments	7.5%	**7.4%**	–	–
Gilts	4.5%	**4.4%**	–	–
Other Bonds	5.5%	**5.5%**	–	–
Property	6.5%	**5.4%**	–	–
Cash	3.0%	**3.0%**	–	–
Target Return Portfolio	5.0%	**5.0%**	–	–
Expected Return on Assets	6.6%	**6.5%**	–	–
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.1 yrs	**20.3 yrs**	23.1 yrs	**20.3 yrs**
Women	25.0 yrs	**24.4 yrs**	25.0 yrs	**24.4 yrs**
Longevity at 65 for future pensioners:				
Men	25.4 yrs	**22.4 yrs**	-	**-**
Women	27.3 yrs	**26.3 yrs**	-	**-**
Rate of inflation (RPI)	3.9%	**3.5%**	3.9%	**3.5%**
Rate of Inflation (CPI)	n/a	**2.7%**	n/a	**2.7%**
Rate of increase in salaries	5.4%	**5.0%**	-	**-**
Rate of increase in pensions	3.9%	**2.7%**	3.9%	**2.7%**
Rate for discounting scheme liabilities	5.5%	**5.5%**	5.5%	**5.5%**
Take-up of option to convert annual pension into retirement lump sum	50%	**50%**	-	-

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 2010 %	31 March 2011 %
Equity investments	69	**70**
Gilts	17	**17**
Other Bonds	0	**0**
Property	6	**5**
Cash	7	**7**
Target Return Portfolio	1	**1**
	100	**100**

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 and the previous five years can be analysed into the following categories

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Local Government Pension Scheme:	£m	£m	£m	£m	£m	£m
Experience of gains and (losses) on assets	23.2	1.7	(17.4)	(49.5)	40.4	(5.9)
Percentage experience on assets as % of total assets	10%	1%	(7%)	(19%)	11%	(2%)
Experience gains and (losses) on liabilities	(0.4)	(0.4)	(1.8)	(1.0)	0.4	17.5
Percentage experience on liabilities as % of total liabilities	0%	0%	(1%)	(1%)	0	9%
Total	22.8	1.3	(19.2)	(50.5)	40.8	11.6
Discretionary Benefits:						
Experience gains and losses on liabilities	(9.4)	(9.7)	(9.2)	(9.4)	(10.3)	(8.3)

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 2010/11 these amounted to £0.8 million (£0.8 million in 2009/10). 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 2011 to be £94 million (2009/10: £104m), of which Torbay's share, based on Taxbase, would be £11 million (2009/10: £12 m).

47. Summary of Significant Accounting Policies

1.1 General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts (by the Accounts and Audit Regulations 2003). These are prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (The Code) and the Service Reporting Code of Practice 2010/11 (Formally Best Value Accounting Code of Practice), supported by International Financial Reporting Standards (IFRS)

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.

1.2 Pervasive Accounting Concepts

- Accruals

The financial statements are prepared on an accruals basis. The accruals basis of accounting requires the non cash effects of transactions to be reflected in the financial statements of the accounting period in which these effects are experienced, and not the period in which any cash is paid or received.

- Going Concern

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.

- Primacy of Legislative Requirements

Local Authorities derive their power from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that treatments are prescribed by law the accounting concepts outlined above may not apply in all cases. It is a fundamental principle of local Council accounting that, where specific legislative requirements and accounting principles conflict, legislative requirements shall apply.

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 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 revenue 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 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 Councils is the billing authority for the Torbay area. This means that the Council 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.

Council Tax

The Council only reflects in its balance sheet only 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 are an accrual due to/from the Devon and Somerset Fire and Devon and Cornwall Police services.

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, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

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

For 2010/11 to reflect the introduction of IFRS the Councils 2009/10 comparative information has been completely restated in line with IFRS which has required the presentation of a "third" balance sheet as at 1st April 2009 which is the date of transition to IFRS.

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 fixed 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 fixed 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 which operate on a ring fenced basis, such as Operational services (up to 19/07/10) and the Harbours accounts, will also be charged a rate of return on their assets based on their opening Balance Sheet value, using a capital interest rate set by CIPFA. However for external reporting these charges will be reversed as they are not part of the "Total Cost" of services.

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 contributions over this increased MRP are currently credited to 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 a voluntary revenue provision to fund the repayment of the liability over the average life of the new PWLB borrowing. This sum is charged to the Comprehensive Income and Expenditure Account by way of a transaction to the Capital Adjustment Account in the Movement in Reserves Statement.

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 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 format 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 to services or shown as a 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 provided 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 were 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 note 46 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 - debited to the Pensions Reserve
- 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; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement 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 costs disclosed for individual services in 2010/11 are higher after the replacement of employers' contributions by IAS 19 related costs. The net surplus on provision of services is also significantly 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 31%. (65% 2009/2010).

Discretionary Benefits

In 2010/11 the Council did not 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 therefore IAS 19 does not apply to these costs.

Any costs of discretionary awards 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 can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events

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

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

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. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

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.

However the Council can make loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. This was not applicable to Torbay in 2010/11.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. This was not applicable to Torbay in 2010/11.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This was not applicable to Torbay in 2010/11.

Available for Sale Assets

Available-for-sale assets 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 (eg, dividends) 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 principles:

- instruments with quoted market prices -the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis

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. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation). This was not applicable to Torbay in 2010/11.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. This was not applicable to Torbay in 2010/11.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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.

Instruments Entered Into Before 1 April 2006

The Council entered into a number of financial guarantees that are required to be accounted for as financial instruments but have a statutory override to negate the impact on council taxpayers. These guarantees are 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 and the impact of the recalculation of interest on an amortised costs basis on stepped rate loans. Note the Council has not used the provision in SI 414 2008 to mitigate the ongoing impact of the interest on the stepped rate LOBO with Barclays.

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 excepted cash flow of the interest payment).

1.13 Foreign Currency Translation

Where, if applicable, the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March of each year. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.14 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 Area Based Grant and 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 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, 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.

Where 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.

1.15 Business Improvement Districts

A Business Improvement District (BID) scheme was established in the Torquay area in 2010. The scheme is funded by a BID levy paid by non-domestic ratepayers and managed by Torbay Town Centres 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 is any costs and income associated with the administration costs of the collection of the levy.

1.16 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. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. This was not applicable to Torbay in 2010/11.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £25,000) the Capital Receipts Reserve. This was not applicable to Torbay in 2010/11.

The Council did not retain the costs of internally generated assets prior to 2009/10 therefore no retrospective recognition of intangible assets has been made as at 1st April 2009.

1.17 Interests in Companies and other Entities

<u>Companies</u>

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, less any provision for losses. For 2009/10 the value of the Council's interests in these companies is not considered to be sufficiently material to require the production of group accounts for the Council.

The Council wholly owns Torbay Enterprise Agency (not trading), Torbay Development Agency Limited (dormant), Torbay Economic Development Agency (new 2010/11 but not trading), English Riviera Tourism Company (new 2010/11) and has representation on the board of SWERCOTS Ltd, SWIGFL, Devon and Cornwall Connexions, Torbay Town Centres Limited, the PLUSS Organisation and TOR2 (new 2010/11) but these companies are not consolidated into the Council accounts, as they are not material in terms of the amounts and impact on the Council.

Details of the companies that the Council has an interest in are listed in the Related Parties note 39 to these 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 own 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 2010/11. 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 has 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 Care Trust

The Council entered a "partnership agreement" with Torbay Care Trust (formally Torbay Primary Care Trust) on the 1st December 2005. 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 2010/11 any under/overspends on the adults social care function provided by the Torbay Care Trust is the Council's responsibility subject to an agreed calculation of the split of any overspend between the Council and Torbay Care 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 Care Trust remains within the Department of Health accounting boundary.

The Council and the Care Trust are accounting for the partnership on the basis that the Council is funding the Care Trust to undertake delegated activities. The Care Trust will continue to provide the former Primary Care Trust activities. The Care 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 Care 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 Care Trust as part of the overall funding. In addition the Council continues to support a number of functions on behalf of the Care Trust, in particular, a debtor's function for charges for social care.

In addition the Council is the lead body for a pooled budget with the Torbay Care Trust for the Joint Equipment Store.

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. The value of inventories includes, if material, all costs of purchase and/or conversion. Inventories are assessed at year end for any write down of the value of the inventory which is recognised as a cost in that year.

In relation to the Joint Equipment Store, managed as a pooled budget with the Torbay Care Trust, due to the nature of the purchases the costs are directly charged to revenue as they are incurred.

Long term contracts, where applicable, are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

Any provision of services charged for, usually professional fees, and any costs incurred in relation to a construction contract undertaken by the Council for a third party are only recognised as income and/or expenditure in the year to the value of the work actually undertaken.

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.

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. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £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.

<u>Devon Audit Partnership</u>

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 Council's recognise in their accounts their share of the partnerships' income, expenditure, assets and liabilities.

1.21 Leases

The Council's leases relate mainly to accommodation where the Council both leases in and leases out property.

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

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.

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.

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

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

This was not applicable to Torbay in 2010/11.

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 (eg, there is a rent-free period at the commencement of the lease).

<u>The Council as Lessor</u>

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

This was not applicable to Torbay in 2010/11.

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.

<u>Crematorium</u>

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 Best Value Accounting Code of Practice 2010/11 (BVACOP). 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 BVACOP 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 Best Value Accounting Code of Practice 2010/11 (BVACOP). This analysis is in some service areas different to the Council’s internal budgeting and monitoring arrangements

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 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.

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.

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. Torquay Community College became a Foundation school in February 2010. For the 2009/10 accounts the date of transfer has been taken to be 31st March 2010 therefore any capital expenditure and related grants in 2010/11 has been treated as Council capital expenditure. Any subsequent expenditure and grants in 2010/11 onwards will be recognised as revenue (REFCUS)

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.

The cost of assets acquired other than by purchase is deemed to be its fair value. Donated assets, if any, are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement. Not applicable to Torbay in 2010/11.

List of asset categories & their definitions

Land and Buildings – Assets used for operational purposes

Vehicles. Plant & Equipment – Assets used for operational purposes

Community Assets - assets which the authority 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 Investment Properties or 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 highways, footways, coastal defence, and drainage systems.

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

- 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.

- Community Assets – (depreciated) historical cost and, as with Infrastructure Assets, generally their value is increased as capital expenditure is incurred.

- 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.

- 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.

- 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.

- all other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV**)**

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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, from May 2011, 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.

From April 2010 when an asset has been revalued on a component basis and the asset is leased out, the asset will, if material, be reassessed under IAS17 to consider if all or part of the lease will be categorised as a finance lease. Not applicable for Torbay in 2010/11.

<u>Impairment</u>

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).

Deprecation 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 generally over 40 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council only assess an asset for componentisation (beyond the standard land and buildings split) if the asset has a gross value of more than £2m and the value of a type of component within an asset has a value in excess of £0.5m. 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.

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 as a non current asset.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease 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 revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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 plan. This option was not used in 2010/11.

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 has 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.

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.

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 (eg 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.

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Council (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value. For 2010/11 the Council has assessed this value to be nil.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure-required to meet the obligation, normally the market price of the number allowances required to meet the liability at the-reporting date.

However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Contingent Liabilities

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

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts 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 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 2010/2011

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.

2009/10			**2010/11**	
£ m	£ m		**£ m**	**£ m**
		Income		
(57.4)		Council Tax Receivable	(59.7)	
(14.6)		Transfers from General Fund - Council Tax Benefits	(15.6)	
	(72.0)			**(75.3)**
	(31.3)	Income from business ratepayers (NNDR)		**(32.1)**
	(103.3)	Total Income		**(107.4)**
		Expenditure		
		Precepts and Demands:-		
7.2		Devon & Cornwall Police Authority	7.6	
3.3		Devon Fire Authority	3.5	
59.5	70.0	Torbay Council's own Demand (including Brixham Town Council)	61.4	**72.5**
	0.0	*Distribution of previous years estimated collection fund surplus. Note D*		**0.7**
		National Non-domestic Rates (NNDR):-		
30.6		Payments to NNDR Pool	31.5	
0.2	30.8	Cost of Collection Allowance	0.2	**31.7**
		Bad and Doubtful Debts/Appeals:-		
		Council tax		
0.5		Write Offs for uncollectable amounts	0.5	
0.2	0.7	Allowance for Impairment	0.1	**0.6**
		NNDR		
0.4		Write Offs for uncollectable amounts	0.4	
0.1	0.5	Allowance for Impairment	0.0	**0.4**
	102.0	Total Expenditure		**105.9**
	(1.3)	Surplus for year		**(1.5)**

£m	**Movement of Fund Balance**	**£m**
0	Balance brought forward as at 1st April	**(1.3)**
0	Distribution of previous years estimated surplus	**0.7**
(1.3)	Surplus for the year	**(1.5)**
(1.3)	Balance carried forward as at 31st March	**(2.1)**
(0.2)	Balance attributable to major precepting bodies. *Note E.*	***(0.3)***
(1.1)	Balance attributable to Torbay Council*. Note E.*	***(1.8)***

Note: Brixham Town Council, a local precepting authority, was established in May 2007. The Town Council 'precepts' on Torbay Council as a billing authority to fund its activities, the precept for 2010/11 was £0.186m (£0.182m in 2009/10) 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.

Note: Brixham Town Council, a local precepting authority, was established in May 2007. The Town Council 'precepts' on Torbay Council as a billing authority to fund its activities, the precept for 2010/11 was £0.186 m (£0.182m in 2009/10) 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.

A) Council Tax Base 2010/11

For Council tax purposes the number of domestic properties in each band converted to a Band D equivalent for 2010/11 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	13,048	6,851	993.03	1,399	**734**	18.92
B	7/9	16,905	11,378	1,158.53	2,218	**1,506**	22.07
C	8/9	16,102	12,775	1,324.04	2,428	**1,931**	25.22
D	1	9,676	8,807	1,489.54	1,492	**1,355**	28.38
E	11/9	4,924	5,554	1,820.55	634	**730**	34.69
F	13/9	2,263	3,017	2,151.56	312	**411**	40.99
G	15/9	1,200	1,770	2,482.57	88	**136**	47.30
H	2	117	159	2,979.08	6	**5**	56.76
TOTAL		64,235	50,311		8,577	**6,808**	
Less Allowance for Non Collection @ 3.5% (3.5% 2009/10)			(1,762)			**(238)**	
TAX BASE 2010/11			**48,548.86**			**6,569.82**	

The number of dwellings Band D equivalent for 2010/11 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.

B) Council Tax Income 2010/11

Precepts and Demands:

The following Authorities made a demand on the Collection Fund in 2010/11.

	£ m
Torbay Council (see note below)	61.415
Devon and Cornwall Police Authority	7.603
Devon & Somerset Fire & Rescue Authority	3.484
Total Demands on Collection Fund 2010/2011	**72.502**
Divided by Council Tax Base:-	
Torbay Council Tax Base	48,548.86
Brixham Town Council Tax Base	6,569.82
Band D Council Tax (excluding Brixham Town Council precept)	1,489.54
Band D Council Tax (including Brixham Town Council precept)	1,517.92

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 2010/11 can be analysed as follows.

	£ m
Gross Council Tax Payable for Year	85.9
Reduced Assessments (discounts)	(11.3)
Actual Income from Council tax	**74.6**
Less Council Tax Benefit	(15.6)
Total Council tax Income 2010/11	**59.0**

The difference of £2.1 million between the actual Council Tax income (£74.6m) and the estimated income (£72.5m) 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 2011 was £100.5m (2009/2010: £78.3m).

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 2010/11 was 40.7 pence per pound of rateable value and the non domestic rating multiplier was 41.4 pence per pound.

As part of the NNDR regulations, all commercial premises have been revalued by the Valuation Office and a new rating list put into effect from 01/04/10. As part of this process the total rateable value increase offset by a decrease in the multiplier.

D) Distribution of previous years' estimated collection fund surplus/(deficit)

2009/2010		**2010/2011**
£000's		**£000's**
0	Torbay Council	**543**
0	Devon and Cornwall Police Authority	**66**
0	Devon & Somerset Fire & Rescue Authority	**31**
0	**Total**	**640**

E) Accounting for the Collection Fund balance

The opening balance for the Collection Fund for 2010/11 was £1.3m. The balance as 31 March 2011 was £2.168m 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 2010/11 Statement of Accounts as follows.

Major Precepting Bodies:-	**2010/11**
	£000's
Torbay Council	**1,837**
Devon and Cornwall Police Authority	**227**
Devon and Somerset Fire and Rescue Authority	**104**
	2,168

In the Balance Sheet as at 31 March 2011 the Council included the disaggregated amounts for Devon & Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority as a creditor. 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

GLOSSARY OF TERMS

A

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 authority (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.

Area Based Grant – a general government grant that was introduced in 2008/09 replacing a number of service specific grants and the Local Area Agreement Grant.

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 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 if 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 Service Costs (pension) – The increase in the present value of a defined benefit 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 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.

E

Emoluments – Employees expenses allowances.

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, 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 arrangement, 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.

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

Historical Cost – the historical or original cost of a fixed asset which can be increased by capital expenditure on that asset.

I

Impairment – A reduction in the value of a fixed asset, below its balance sheet value.

Intangible Assets – see Assets

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 2010/11. 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 is due to be implemented with an effective date of April 2007.

LOBO – A "Lender Option, Borrowing Option" loan. Such a loan has a set rate fro 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.

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 its not used for trading purposes.

Non Distributed Cost – It's a category that 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 undischarged obligations in relation to such leases.

P

Past Service Cost – The increase in the present value of a defined benefit 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 Council 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 - available for meeting general, 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 from revenue or reserves, rather than from borrowing or other sources.

Revenue Expenditure - expenditure on day-to-day expenses consisting mainly of employees, 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

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.

ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2010/11

Introduction

The purpose of the annual governance statement is to provide for Members, stakeholders and other interested parties an accurate representation of the governance (the management and decision making) arrangements in place during the year. It should also evidence how the authority gets its assurance that these arrangements are operating as planned and are robust. The annual review should also highlight those areas where improvement is required and reflect upon improvements that have been implemented since the previous statement.

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 2011 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

Both the Council and the Torbay Strategic Partnership have a clear vision of the future for Torbay, driven by the Community Plan for Torbay. The most recent Community Plan was published in 2007 and this has driven the priorities for the area. A refresh of the Community Plan will be published in the summer of 2011. More specifically the Council has refreshed, annually, its own Corporate Plan to reflect the Council's contribution to the achievement of the Community Plan.

The Mayor and fellow Council Members have undertaken consultation with the public through the "Torbay Connect" caravan and other mediums on a regular basis. Members and officers have also undertaken consultation with stakeholders when new strategies and policies have been developed.

As part of its Priorities and Budget setting arrangements the Council co-ordinates a series of public events to gain an understanding of the communities views. The Council's main partners, the Care Trust, Police, Fire and Rescue and the Voluntary Sector also attend these events so that the local community has a comprehensive understanding of its local public and voluntary sectors.

The Council works closely with and supports the work of the Torbay Strategic Partnership. This developed the Community Plan referred to above and is fully accepted by all. The partnership has held a number of events with the wider community, to look at aspects of how priorities identified in the Community Plan contribute to all the themes. The outcomes have been fed into the overall planning for the delivery of the expected outcomes.

The Council has continued with the ideas developed in the "Mayoral Vision", originally launched in October 2007, and which has been fully described in previous years' Annual Governance Statements. The Council, through its Economic Development Function, has progressed a number of these projects and engaged the community in meaningful and constructive consultation.

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**. With full agreement of the Torbay Strategic Partnership the latest version of the JSNA covered more than just the Health issues within the area and now represents a true needs assessment for many communities within the Bay and is the basis for commissioning services to meet most needs. Once again this followed considerable consultation with stakeholders.

The Corporate Plan and Business Plans are reviewed annually as part of the Council's Annual Planning Cycle.

Further information in respect of planned outcomes is contained within the Council's Local Area Agreement and Annual Report.

The Council's **Communication Strategy,** as approved by full council, is communicated to staff, and all stakeholders via regular internal and external updates using promotional material, the web, the intranet, resident's magazine, staff newsletter and consultation caravan.

The strategy has had a number of recent successes. The Torbay Together Campaign was a national award winner in the 2010 LG Reputation Awards. This year the council's new internal communication strategy 'It's good to talk' is shortlisted for two prestigious national awards. The CIPR Excellence Awards (the only local authority in its category) and the 2011 LG Communication Awards.

The Council has, in recent years, made much more use of the **Community Partnerships** where local ward members and stakeholders can discuss concerns and issues with their constituents. These were used to help assess the impact and proposals included in the following year's budget and are gradually developing into major influencing and responsible bodies within the Community.

(B) Arrangements for reviewing the authority's vision and its implications for the authority's governance arrangements

The short term aims of the Community Plan have been delivered through the Local Area Agreement. The Performance Indicators and stretch targets included in the LAA were monitored on a quarterly basis through the TSP Executive Board, which reports to the full TSP. The success of this approach is verified by Torbay being the second highest achiever in terms of percentage of stretch targets achieved in the South West.

The Council has recognised the growing importance and influence of partnerships in delivering the outcomes for the community. To this end it has completed an audit of existing partnerships and produced a Policy and Guidance for all partnerships, existing and future. This Policy and Guidance includes the governance arrangements for partnerships and identifies clear accountability for ensuring such arrangements are in place.

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, development of an Older Persons Strategy etc. and where appropriate have adapted the priority issues facing the Council. The Council has refreshed its Local Area Agreement with new targets agreed for those indicators most affected by the current economic climate.

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, including meetings with representatives of the Community Partnerships from within the Torbay area.

Issues identified in the Community Plan are monitored and tracked through the Corporate Plan and Business Plans and performance against targets is recorded on SPAR and reported through the scorecard to the appropriate body, the senior management team on a monthly basis and the Cabinet and Overview and Scrutiny quarterly.

The Council is also very mindful that the 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.

(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

The Council has continued to improve its collection and use of performance information and has made significant improvements in its data collection and verification of Performance Indicators. In addition it has developed a range of Balanced Scorecards from the Strategic level down to Business Unit level, to measure performance across a basket of performance indicators linked to Customer, Pounds, Process and Employees. In essence the scorecard measures the activities, processes and outcomes that are most important in delivering the agreed outcomes.

Surveys of users in service specific groups and Place Survey results are used together with specific Viewpoint and YEP (Youth Panel) 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 SPOT within the learning disabilities and TTIG for consultation groups.

The Council records performance information using performance-reporting software (SPAR) and action on areas of poor performance is closely scrutinised, monthly by the senior management team and quarterly by Cabinet 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 participates in a range of Benchmarking clubs including those provided by CIPFA, SOCITM, PWC, as well as the Audit Commission comparative data sets. It uses the data to measure performance against comparators and to identify authorities from whom the Council could learn.

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 **Council's Constitution** sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Following a referendum, Torbay moved to an Elected Mayor form of governance with the first Elected Mayor taking up office in October 2005. 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 a cabinet of up to 7 other Members who oversee and advise on specific areas of Council business. Prior notice of matters for Mayoral or Officer level decisions, which are classed as key decisions, are published within the Forward Plan. Cabinet meetings are public and notice of all areas for discussion is published in advance. Matters outside of the budget and policy framework are referred to full Council for decision.

The **Council's Constitution** is designed to ensure the Council acts lawfully at all times and to ensure compliance with its policies and procedures. The Constitution includes Standing Orders, Financial Regulations, 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 **Schemes of Delegation** to Officers and Members are contained within the Constitution and are subject to regular review. The Council has a well developed and successful 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 to the Cabinet / Council as appropriate. Overview and Scrutiny arrangements were reviewed in 2009, through a peer review, to reflect the new Community and Corporate Plans.

The Council also created a "stand alone" Audit Committee in 2008-09, taking this function out of the Overview and Scrutiny Board remit. The Committee has taken responsibility 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 council has further improved its approach to safeguarding by the appointment of an independent chair for child and adult safeguarding. This is in line with best practice and ensures appropriate challenge to the council and partners in exercising their statutory responsibilities. However external assessors have recently highlighted weaknesses in both the Children's and Adult Social care areas of service provision and both the Council and the Care Trust have put in place a plan of action to improve the position.

Since its publication, Torbay Council has complied with the principles enshrined within the original CIPFA/SOLACE code on Corporate Governance and has developed a revised code of Corporate Governance based around the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government”.

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. These documents are available on the Council’s website. In addition, the Council’s Standards Committee has a majority of Independent Members (six independent members, four Torbay councillors and 3 Brixham Town councillors) and is chaired by an Independent Member. This far exceeds the legal requirement for involvement of Independent Members and the Committee has been given responsibility for promoting high ethical standards amongst Members; monitoring the operation of the Members’ Code of Conduct (including observing performance at public meetings and training members); and dealing with complaints against Members under the Local Protocols.

The Council has an approved organisational structure with job descriptions for all officers and Members supported by a relevant scheme of delegation.

(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, Computer Security Policy, Freedom of Information Policy and Data Protection Policy and the Corporate Plan and Constitution. This is supported by regular updates from HR in respect of new policies and guidance.

Regular HR updates are produced and Newsflash system monitors press releases which reflect external legislative change issues. These are also communicated widely to staff by a number of methods.

Corporate induction courses are run on a regular basis and managers have the responsibility to ensure that all new staff attend these induction events. They are also responsible for more local induction arrangements. All officers who are in politically restricted posts and those responsible for negotiating contracts etc are required to provide HR with a register of 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 monitoring the conduct of Members and investigating complaints in respect of individual Members and is comprised of a majority of independent co-opted Members. The Standards Committee develops an annual work programme to promote and embed ethical standards and this is reported to the Council.

The Standards Committee’s independent members also observe Council, Cabinet and other meetings and provide feedback reports on probity and conduct issues. This has resulted in improvements to the Constitution, procedures and a coaching programme for individual councillors.

(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 continually 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. It includes various codes of conduct and local protocols, as well as defining the relative responsibilities of the Council, the Mayor, Scrutiny and senior officers. This also includes the Council’s Standing Orders and Financial Regulations, and is based upon recommendations from officers in order that the Council continues to operate in an efficient and effective way.

The Council underwent a major restructuring during 2008-09 to move to a Commissioning organisation. As a consequence a full review of the Standing Orders was undertaken and Council approved the revised document in June 2009. Since that time further amendments have been implemented in accordance with agreed procedures.

Commissioners and Executive Heads are responsible for risk management within their departments, with advice and support from the Council's Risk Management officer. Business Plans identify the key risks affecting Business Units and identify control measures where applicable. The Executive Head of Governance has been given responsibility for overseeing the implementation and monitoring of the risk management strategy and policy and provides regular progress reports to the Audit Committee which has responsibility for monitoring the approach to Risk Management. The overall risk register has been considered by the Audit Committee and Cabinet as part of the process.

The Council completed a detailed review of its Risk Management Policy and Strategy and the Strategic Risk Register in the current year. Council officers review the risk register on a quarterly basis and the key risks and significant changes are reported up through the organisation.

The Council, when considering any matter, will have a risk assessment within the report in which officers identify both the risks attached to the decision and the consequences of not undertaking the recommendation.

The Council fully recognises the need to continue to control risks in all projects and, as part of standard procedures Prince II and MSP are the adopted approaches that are applied to all such exercises.

(G) Ensuring the Authority's financial management arrangements conform with the governance arrangements of the CIPFA statement on the role of the CFO in local government.

Following the implementation of the commissioning strategy within Torbay Council, the Chief Financial Officer (CFO) has direct access to the Chief Executive on all matters and has direct access to all Members and senior officers of the Council.

The Council follows a number of well established practices to ensure it makes best use of its resources. The CFO ensures that the Commissioning Officer Group (COG) receive regular monitoring statements on both volatile or key budgets and the overall position which indicate possible trends and reports on management actions necessary to bring any budgets at variance back on track. These then get reported formally to members on a quarterly basis but the Cabinet member with responsibility for finance has monthly briefings. This applies to both revenue and capital budgets. All new monies received by the Council are reported at the earliest opportunity along with recommendation regarding its use.

All reports to Members that are brought forward include a section on the resource implications of the recommendations and these are cleared before publication by the CFO or one of his senior staff. These reports also cover value for money and benchmarking implications where appropriate and available.

The Council takes its financial responsibilities very seriously and to this end, the full Council approves the Treasury Strategy on an annual basis and all Members are briefed on key financial issues.

The CFO also has responsibility for ensuring that the Council operates secure and reliable financial and accounting systems and the Devon Audit Partnership undertake the role of auditing these systems to give the assurance needed. This is described in more detail in section M.

The Council undertakes a long term view about its financial requirements and, to aid this process, publishes a Medium Term Resource Plan (MTRP) on an annual basis. However, as events are taking place all the time that impact on the MTRP, this is a working document that reflects the latest projections and which is used to inform recommendations that appear in reports to Members. A more detailed plan though is developed through the annual budget process and is against which the Council monitors its financial performance and is used to deliver its expected outcomes.

(H) Undertaking the core functions of an Audit Committee, as defined in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

As indicated earlier, 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. In particular the system includes: -

- 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 Cabinet quarterly, and is considered regularly by the Commissioning Officer Group. In addition Commissioners' 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.

Commissioners 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 risk management initiatives including some risk control self assessment workshops.

(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. 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 previously introduced new procedures for dealing with customer complaints and this provides the means for customers to feedback concerns or issues. Data is collected from all service areas regarding complaints including the number of complaints they have received, the complaint issue and the resolution. This information is analysed and reported back to Members and Senior Managers along with the actions taken to improve services where there are relevant learning points. An Annual Report is also produced which gives an account of the complaints and compliments received and handled by the Council and Ombudsman complaints during the previous financial year. This report is presented to the Overview & Scrutiny Board. Customer Care standards have been agreed and published. The complaints procedures are regularly reviewed, including incorporating 'lessons learned' from the investigation of complaints.

(K) Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training

A comprehensive induction took place for elected Members following the local elections in May 2007. Dedicated support within the Democratic Services team has been identified to work on the Council's approach to member development and the Council was awarded the South West Charter for Elected Member Development in March 2008 and Charter Plus in 2010. Annual one to one development sessions with senior officers from the Democratic Services team are offered to all Members and a Members' skills framework is used to identify development needs which in turn inform the annual Members' development programmes. 35 members have personal development plans. Corporate training needs for Members are also identified by the Commissioning Officer Group.

The Member Development Strategy seeks to build on the work already undertaken to ensure a structured approach and that all members, including our co-opted members on Overview and Scrutiny and Independent Members on the Standards Committee, are supported in their role. It also ensures that the Members are effective in supporting the Council's corporate objectives.

Strategic roles and development needs are identified and assessed through Senior Management Forums, annual RADARs and Management Team Meetings. The Council has also undertaken senior officer training on the Commissioning framework with Birmingham University.

The Council has strongly supported staff development, particularly through programmes such as ILM.

Training has been given to officers and at senior management events on protocols on decision making e.g. initiative development.

(L) Arrangements for establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

There is a series of monthly consultation and feedback events with the Connect caravan where members of the public can feed back on those issues that interest them directly to the Mayor, Councillors and officers. This is supplemented by other specific consultation events using the caravan.

The Council used the Audit Commission stakeholder analysis to improve local relations. 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 refreshed 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 and Tourist Information Centres 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 and a residents' magazine Torbay View, which is distributed to every household. Councillors have also been encouraged to produce their own means of communication and, for example a number have created their own website.

A number of community groups have been established to support those members of the community who can be regarded as "hard to reach", e.g. BME, LGBT, Faith, Older Persons, Young People and those with Disabilities. The Council's approach is to support the development of these groups and build their capacity to make them largely self-sufficient.

(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 governance of the Torbay Strategic Partnership was considered and reviewed in 2007 to ensure its fitness for purpose in delivering the new Community Plan. The Strategic Partnership is underpinned by a number of delivery partnerships all of which are represented on TSP.

The Council's Code of Corporate Governance is available on its website and Local Strategic Partnership stakeholders are aware of governance arrangements and the link to the council code and processes. There is a robust Constitution established for the Torbay Strategic Partnership and for the local Community Partnerships.

Strategic Commissioning Partnerships have been established, based on the four quadrants of the TSP's Wheel, at a level below the TSP itself to deliver Joint Commissioning Strategies. The 'Wheel' has been adopted to represent, as its hub, the commitment to improve economic prosperity and thereby the overall prosperity of the local community. This will be achieved through four key focus areas, shown as quadrants of the wheel – Pride in the Bay, Learning and Skills for the Future, the New Economy and Stronger Communities.

Joint Commissioning Strategies further refine and define outcomes, measures, targets and spending plans across each quadrant, including all other agency 'must do's', not just those relating to the Community Plan. They ensure effective ''join-up'' of all relevant agencies and partners, and effective engagement with suppliers and users of services. In summary it merges each partner's intentions into one overall statement of strategic commissioning intent, aligning budgets and policies wherever possible, and reflecting the needs of the people of Torbay.

The Council has also established appropriate arrangements in respect of service specific partnerships such as the Torbay Care Trust and the Torbay Coast & Countryside Trust and more recently with the newly formed TOR2 and English Riviera Tourist Company.

As mentioned previously, a Policy and Guidance for all partnerships, existing and future has been agreed and introduced. This Policy and Guidance includes the governance arrangements for partnerships and identifies clear accountability for ensuring such arrangements 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 Executive 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. 2010-11 saw the second 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 by the standard of work. 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 a Constitution Working party and defines the relative responsibilities of the Council, the Mayor, Overview and Scrutiny Board and Senior Officers. This also includes the Scheme of Delegation to the Mayor, Cabinet, Committees and Officers, and also the Officer Scheme of Delegation.

Internal Audit

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.

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.

The Council's Constitution is continually reviewed throughout the year by the Monitoring Officer, Section 151 Officer and Democratic Services 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 Scheme of Delegation to the Mayor, Cabinet, Committees and Officers, and also the Officer Scheme of Delegation.

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.

External Review

Following the General Election, in May 2010, the Coalition Government decided that local authorities would no longer have to undertake a Comprehensive Area Assessment (CAA). The Council had produced action plans following the 2009 CAA and Use of Resources Assessments that would have seen the performance as monitored by those forms of inspection improve. Despite the abolition of these measures, Torbay Council continues to seek to provide continuous improvements in all areas of performance and will continue to use the former measures as an indicator of best practice.

Areas of the Council's work where further action is required

As a consequence of the above reporting mechanisms, Members and Commissioners have been continually updated and advised on the implications of reviews of the effectiveness of the system of internal controls. Plans have been devised and put in place to ensure continuous improvement. The Council's annual review of the governance framework including the system of internal controls and associated reviews during the year identified some areas where action is appropriate to enhance the governance and internal control environment and ensure continuous improvement. These are listed below, along with the proposed action to remedy or improve the position.

Areas for further work	***Action Planned***
(1) Risk Management	Whilst operational risk management is embedded in a large number of areas within the Council, there are still some concerns over the robustness of Business Continuity Plans and a focus is being put on this area of work to ensure the Council can respond appropriately given the proposed reductions in spending identified by the government on the one hand against both the legal framework and expectations from the public over service provision.
(2) Review Corporate Governance arrangements and performance management of the Council and its partnerships	Governance arrangements will be kept under review as the Government's new policies impact on our services. This is particularly relevant in relation to the future of Public Health. The Council has in place a framework for the quarterly monitoring of performance across all its services and its partners including the Torbay Care Trust and TOR2. In addition, through the TSP Executive Board it also monitors the delivery of its LAA targets, including the performance of partners. In moving towards the Commissioning Model the Council recognises that it needs to keep under review its current performance management arrangements to ensure they are effective for monitoring a potential range of service providers. This is achieved through an annual review of the performance management framework. The Council will look to strengthen its 'performance' management of partners to encompass potential resource issues as the CSR impacts on existing commitments.
(3) Payroll processing and administration and work force planning	The Council, following previous audit reports, has only recently completed the re-implementation of the payroll system. Whilst the implementation appears to have been successfully achieved the new payroll has not yet been in operation for a full audit cycle and therefore there may to be further checks made before officers and auditors are fully satisfied of the total integrity of the system.
(4) Management of information and data	The continuing loss of PCs and data nationally has continued to highlight the need to ensure that all Torbay data is properly secured and handled in accordance with agreed protocols. Further work will be undertaken on this both internally and with partners in line with the agreed work programme and national standards.
(5) Safeguarding of Children and Adults	During 2010-11 the Council and its partner, the Torbay Care Trust, both received critical reports on the safeguarding procedures in place for Children's Services and Adult Care Services respectively. In both cases the Council and the TCT have put in place action plans to significantly reduce the areas of weakness identified by the respective inspections. These will be continually monitored both by the Council and the respective inspectorates and updates and

	reviews will be made during 2011-12 to ensure appropriate progress is being made.
(6) Contractual compliance with European tendering procedures.	European legislation is changing at a rapid pace and with the Council moving to a Commissioning organization, it is essential that the Council is kept up to date on all changes in this area. The Council has appointed a specialist Procurement Solicitor to provide expert guidance on this crucial area. Part of the role of this member of staff is to ensure that officers are kept up to date with changes whilst at the same time commissioning officers are expected to check with the legal team before committing the council during any negotiating arrangements.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

Elizabeth Raikes

Chief Executive

Date: June 2011

Signed

Gordon Oliver

Mayor of Torbay

Date: June 2011