

Financial Services



STATEMENT OF ACCOUNTS

2006/07

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

TORBAY COUNCIL

STATEMENT OF ACCOUNTS 2006/2007

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Explanatory Foreword

1 Introduction

The Statement of Accounts for 2006/07 has been prepared in accordance with “The Code of Practice on Local Authority Accounting in the United Kingdom 2006” published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This sets out the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local council. Any departures from this standard are disclosed in the notes to the accounts.

2 Financial Overview

The Council's aims and objectives are set out in its 2006-2007 Best Value Performance Plan (BVPP), its Corporate Plan 2006-2009 and the Community Plan. These are available on the Council's website:-

Corporate Plan - <http://www.torbay.gov.uk/corporate-plan.pdf>

Best Value Performance Plan - http://www.torbay.gov.uk/bvpp_2006-07.pdf

A summary of the Council's budgetary position is included in the Best Value Performance Plan.

During the 2006/07 financial year there were changes to both the Council structure and its funding.

Following the integration in 2005/06 of Childrens' Social care with Education Services to form a unified Childrens' Service, further restructuring of that service was undertaken to meet the Every Child Matters national agenda.

In 2006/07 the system for the funding of schools changed. The Council now receives a direct 'dedicated schools' grant of £63.3 million instead of funding from formula grant and council tax payers. This income is included in the Income & Expenditure account under 'Education Services', with an appropriate reduction in the Council's general 2006/07 Formula Grant compared to 2005/06.

The Council set a Revenue budget for 2006/07 of £96.4 million (an increase of 4.96% over 2005/06 excluding schools expenditure). This equated to a Band D Council Tax of £1083.99 for the Torbay Council Tax requirement, an increase of 4.8%. The Total Council Tax Band D including the Devon and Cornwall Police Authority and Devon Fire Authority was £1,270.78, an overall increase of 4.9%.

The Council's net budget requirement of £96.4 million is funded from Central Government grant and redistributed National Non-Domestic Rates (£43.5 million or 45.2%), with the balance funded from local taxpayers (£52.8 million or 54.8%). In addition the Council also generated income from services and other specific government grants, which supports the provision of services. This result is a gross Council budget for both revenue and capital of approximately £300 million.

The Council faced a number of financial pressures in 2006/07. The main pressures being from demand led services particularly within Adults' social care. The Council continued to gain from proactive treasury management. This enabled the Council to predict and achieve a balanced budget for 2006/07.

As part of the Council's treasury management function, in 2005/06 the Council took advantage of historically low government loan interest rates and based on the approved Capital programme borrowed a significant portion of its anticipated borrowing requirements for the next few financial years. This money was then invested in the money market resulting in increased values for both borrowing and investments. The impact of this proactive borrowing continued to have a significant ongoing impact in 2006/07, and this combined with three increases in bank base rate led to increased investment returns. In addition the Council continued to take advantage of the low interest rates for borrowing and restructured a significant proportion of its debt achieving an average borrowing rate below 4.25%

The Council's Overview and Scrutiny Board met on the 13th June 2007 and considered the Provisional Revenue Outturn Report for 2006/07, which is due to be approved by Full Council on the 28th June 2007. The final net surplus for 2006/07 transferred to the General Fund Reserve was £0.1 million (or 0.07% of approved budget).

The Statement of Movement on the General Fund balance shows that the final outturn position for 2006/07 has left the Council's General Fund Balance at the year end at £2.8 million. (2005/6: £2.7million).

A Capital Outturn Report for 2006/07 was presented to the Council's Overview and Scrutiny Board on the 13th June 2007. The Report showed a net underspend in 2006/07 of £7.4m compared to the latest approved budget for the year of £32.8m. The underspend represents slippage in expenditure planning on some major projects, primarily related to Childrens' Services, for which the budget will be carried forward in the Capital Plan to fund the completion of the projects in 2007/08.

3 Statement of Accounts

The Statement of Accounts is over 130 pages long with its form and content mostly prescribed by legislation. As a result of the trend to make Local Authority accounts more comparable with standard sector accounts the presentation of the accounts has been changed.

In addition a summary Statement of Accounts is also prepared for wider distribution and is available at the Council "Connections" offices and public libraries.

Balances are shown to the nearest £100,000 / £0.1 million.

The changes in the financial statements are summarised in the table below:

Previous Statements	New Statements
Core Financial Statements	
Consolidated Revenue Account	Income and Expenditure Account and Statement of Movement on the General Fund Balance
Consolidated Balance Sheet	Balance Sheet
Statement of Movement of Reserves	Statement of Total Recognised Gains and Losses
Cash Flow	Cash Flow (unchanged)
Notes to each Statement linked to relevant Statement	All notes for Core Statements grouped together

Previous Statements	New Statements
Supplementary Statements	
Collection Fund	Collection Fund (unchanged but now reported as a supplementary statement)

The purpose of each of these statements is outlined in the following paragraphs.

3.1 Income and Expenditure Account

This account summaries the resources that have been generated, consumed and set aside in providing services and managing Torbay Council during the last year. It includes all day-to-day expenses and related income including capital receipts on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year. This is now more similar to standard financial reporting. However to view the overall impact of the Council's financial position for 2006/07 the surplus/deficit on this Account needs to be combined with the Statement of Movement on the General Fund Balance. These statements combined are then comparable with the surplus/deficit on the previous Consolidated Revenue Account.

The Income and Expenditure Account shows the financial position of the Council before allowing for the adjustments provided by statute to raise council tax according to different accounting rules. For example: depreciation of fixed assets is charged to the Income and Expenditure Account but cannot be charged to the General Fund due to its possible impact on the amount of Council tax to be raised. These accounting adjustments are summarised in paragraph below on the Statement of Movement on the General Fund Balance.

As the statement now includes all income related to the year, irrespective of the previous revenue and capital distinctions, capital income such as capital receipts is now reflected in this Account.

The Council is required to present its service expenditure analysis on a Total Cost basis, i.e. including support services, capital charges and FRS17 retirement benefits, in accordance with the CIPFA Best Value Accounting Code of Practice. This code promotes comparability and consistency for local authority financial reporting. The description of services is prescribed by the Code of Practice which does not reflect the Council's own organisation of services

A summary of the Income and Expenditure Account and Statement of Movement on the General Fund Balance for 2006/07 is shown below in comparison with the revised budget (the detailed account is shown in the Core Financial Statements).

Summary Income and Expenditure Account

	Budget	Net Expenditure	Variance
	£m	£m	£m
	2006/07	2006/07	2006/07
Net Cost of Services	91.9	91.0	(0.9)
(Gains)/Losses on disposal of Fixed Assets	0	(0.4)	(0.4)
(Surplus)/deficit on Trading Undertakings	0	(0.2)	(0.2)
Income from Investment Properties	(0.4)	(0.3)	0.1
Interest Payable and Similar Charges	5.4	5.4	0
Interest and Investment Income	(1.9)	(3.3)	(1.4)
(Gains)/Losses on early settlement of borrowing	0	(0.3)	(0.3)
Pension interest cost and expected return on pension asset	0.6	0.6	0
Net Operating Expenditure	95.6	92.5	(3.1)
Central Government Grant Amending Report	0.3	0.1	(0.2)
Amount to be met from Government Grants and Local Taxation	95.9	92.6	(3.3)
General Government Grants	(7.0)	(7.0)	0
NNDR Redistribution	(36.5)	(36.5)	0
Demand on Collection Fund (Council Tax payers)	(52.0)	(52.0)	0
Transfer from collection fund in respect of surplus	(0.8)	(0.8)	0
Net General Fund (Surplus)	(0.4)	(3.7)	(3.3)

Statement of Movement on the General Fund Balance

	Budget	Net	Variance
	£m	Expenditure	£m
	2006/07	2006/07	2006/07
(Surplus)/Deficit for the year on the Income and Expenditure Account (from I&E above)	(0.4)	(3.7)	(3.3)
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	0.4	3.6	3.2
Increase in General Fund Balance for the Year	0	(0.1)	(0.1)
General Fund Balance B/F	(2.7)	(2.7)	0
General Fund Balance C/F	(2.7)	(2.8)	(0.1)

3.2 Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows Torbay Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the Council is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- The General Fund Balance shows whether Torbay Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance.

3.3 Statement of Total Recognised Gains and Losses

This Statement brings together all the gains and losses of the Council for the year not reported in the Income and Expenditure Account and the Statement of Movement on General Fund Balance and shows the aggregate increase in the Council's net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

3.4 The Balance Sheet

The Balance Sheet shows the overall financial position of the Council at 31st March 2007. It shows the balances and reserves of the Council together with the total assets and liabilities. The Balance Sheet includes all assets and liabilities of all activities of the Council excluding Trust Funds.

3.5 The Cash Flow Statement

This statement summarises all of the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes.

3.6 The Collection Fund

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund. The account shows the transactions of the Council in relation to Non-Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to Devon and Cornwall Police Authority and Devon Fire Authority (by way of precept) and to this Council's General Fund.

3.7 The Statement of Internal Control

The Statement of Internal Control demonstrates the framework within which internal control is managed including a review of the adequacy of its governance arrangements.

3.8 The Statement of Responsibilities for the Statement of Accounts

Local Authorities are required to include in their Statement of Accounts a Statement of Responsibilities for the Statement of Accounts, which sets out the respective responsibilities of the Council and Director of Finance for the accounts.

4 Group Accounts

Group Financial Statements are required to reflect the risks and rewards of the Council's interest in other legal entities normally arising as a result of changes in service delivery from the Council to other organisations.

The Council has assessed its relationship with other bodies and the following companies fall within the requirement to produce Group Accounts. Further detail of the Council's relationship with these bodies is contained in Note 33. A summary is listed below.

- Torbay Enterprise Agency Ltd. The turnover and assets held by this company are considered not significant enough to produce Group Accounts.
- Torbay Development Agency Limited. This company has had no financial transactions.
- 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 the Executive Member for Environment. 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.
- On the 1 August 2005 the PLUSS Organisation was formed, this is company limited by guarantee. Devon County Council, Plymouth City Council, Torbay Council and, from July 2006, Somerset County Council each have an equal share in the company. 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. A summary of PLUSS accounts for the part year 2006/2007 is disclosed in Note 33.

5 Current Borrowing, Asset Utilisation and Investments

As at 31st March 2007, the total external investments of the Council amounted to £56.0 million (31/3/06 £48.8m), which represents temporary short term cash deposits with borrowers on the Council's approved lending list. (Of these investments £18.0 million have been invested for over one year). As at the 31st March 2007 the Council had not borrowed any short term monies and had long term debt outstanding of £92.8 million (31/3/06 £86.8m) primarily to Public Works Loan Board (PWLB), of which £2.0 million (nil 31/3/06) is repayable within one year, principally to finance the costs of the Council's Capital Budget, (see Note 26).

Long-term commitment (Private Finance Initiative) - A Project Agreement was signed on 31st March 2000 with Torbay School Services Ltd. for the provision of serviced facilities at Westlands Secondary and Homelands Primary Schools in Torquay. The contract became effective on 10th May 2000 at which time both parties agreed that the conditions precedent had been satisfied. The contract runs until October 2027.

Capital Expenditure in the year totalled £25.4 million (£24.8 million 2005/06). The major areas of spending during the year were:

	2006/07
	£m
Children	
Pre-Primary and Primary Provision	3.1
Secondary Provision	4.7
Special School Provision	0.2
All School Initiatives	3.6
Youth projects & support for private adaptations	0.1
Housing	
Grants for Private Sector Renewal & Disabled Facilities	0.9
Grants to Housing Providers	0.9
Adults	
Support for community and mental health facilities	0.1
IT Developments	0.1

Continued	2006/07
	£m
Highways & Transport	
Structural Maintenance of Highways & Bridges	1.1
Integrated Transport & Infrastructure Schemes	1.9
Community (Environment)	
Flood Prevention & Coastal Defence	1.6
Fleet purchases (Vehicles, plant & equipment)	0.1
Car Parking	0.1
Culture	
Torre Abbey	2.1
Palace Theatre	0.7
Cliff Railway	0.2
Other projects	0.3
Other Schemes	
Business Incubation schemes	0.2
Torquay Waterfront Projects	2.1
Harbours	0.4
Office Accommodation & Major Buildings	0.1
IT Developments	0.1
Local Public Service Agreement schemes	0.7
TOTAL CAPITAL EXPENDITURE	25.4

The Capital Expenditure was financed from:-	£m
Borrowing	7.8
Grants and Contributions	14.5
Capital Receipts	2.1
Earmarked Reserves & Revenue Budgets	1.0
Total	25.4

This expenditure, combined with the results of the Council's 5-year cyclical revaluation programme, resulted in an overall increase of £31 million in the Balance Sheet value of the Council's Tangible Fixed Assets (£41 million increase in 2005/06).

6 Local Government Pension Fund

The Actuary of the Devon County Council Pension Fund to which Torbay Council is a member has provided information concerning the assets and liabilities in relation to the Pension Scheme in accordance with FRS17 (Financial Reporting Standard 17).

FRS 17 requires Local Authorities to recognise pension assets and liabilities within their accounts. The impact on the General Fund for 2006/07 of the FRS17 entries is neutral overall.

This liability is at a point in time reflecting short term stock market changes. The 'cash' implications for the Council of this liability will be reflected in the actuary's triennial valuation of the fund and the subsequent change in employer's contribution rates to meet the long term pension liabilities of the Council. Torbay, like most Councils, has a deficit that is likely to lead to higher employer contributions in the future. The last actuarial review of the Devon County Pension Fund took place as at 31st March 2004 and as a result Torbay's employer's contributions to the fund increased by 5% per annum in 2005/06 and for the next two years.

The actuary has now estimated a net deficit on the funded liabilities within the Pension Fund as at the 31st March 2007 of £59 million (£57.9m 2005/06) (excluding unfunded liabilities). This is a 2% increase in estimated liabilities within the year of £1.1 million. The creation of the Torbay Care Trust will result in further changes in 2007/08 when the full implications of employee pension elections have been assessed by the actuary.

The actuary has also estimated the liability on the Council's unfunded liabilities, i.e. enhanced pension payments) to be £9.7 million at 31st March 2007 (£9.4 million 2005/06).

Therefore the Council's overall pension liability as at 31st March 2007 is £68.7 million. (£67.3 million 2005/06). The overall impact of this liability on the Council is to reduce its net assets by 34% as at 31st March 2007 (36% in 2005/06).

7 Changes in Accounting Policies

The Council's Accounting policies were reviewed for 2006/07. The Council has fully incorporated any changes arising from the Code of Practice on Local Authority Accounting in the United Kingdom 2006 and CIPFA Local Authority Accounting Panel Bulletins. These are quite extensive for 2006/07 and related to the changes in the Core Financial statements reflecting the trend to make public sector accounts more comparable to sector accounts.

Some of the changes are presentational, other require adjustments to the comparative figures for the 2005/06 accounts. The changes include the following:

- the removal of the capital financing charge (notional interest),
- allocation of a share of collection fund to major precepting bodies
- full integration of accounting for Landfill Allowances
- inclusion of gains/losses on disposals and other capital receipts such as Housing Right to Buy receipts on the Income and Expenditure account
- reclassification of items on the Asset Management Revenue Account
- reclassifying items on the balance sheet relating to capital related grants and contributions
- posting credits for government grants deferred to service accounts
- Audit fee note presented on a relevant year basis

8 Prior Period Adjustments

In the 2006/07 Statement of Accounts, the council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06. A table summarising the impact of these changes is shown in note 30.

TORBAY COUNCIL

CORE FINANCIAL STATEMENTS

2006/07

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st MARCH 2007

This account summaries the resources that have been generated, consumed and set aside in providing services and managing Torbay Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

The Council is required to present the service expenditure analysis on a Total Cost basis, i.e. including support services, capital charges and FRS17 retirement benefits, in accordance with the CIPFA Best Value Accounting Code of Practice. This code promotes comparability and consistency for local authority financial reporting.

Restated Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
2005/06		2006/07	2006/07	2006/07
£m		£m	£m	£m
1.2	Central Services to the Public	13.9	(13.0)	0.9
0.2	Court Services – Coroner	0.3	(0.1)	0.2
20.3	Cultural, Environmental and Planning Services	29.8	(8.3)	21.5
67.9	Education Services	103.1	(97.3)	5.8
5.6	Highways, Roads and Transport Services	16.2	(8.8)	7.4
2.6	Housing Services	51.5	(48.7)	2.8
34.2	Social Care – Adults	40.2	(5.8)	34.4
12.2	Social Care – Children	16.4	(2.6)	13.8
2.9	Corporate & Democratic Core	3.6	(0.1)	3.5
0.8	Non Distributed Costs	2.1	(1.4)	0.7
(2.9)	Non Distributed Costs – Curtailments	0	0	0
145.0	Net Cost of Service	277.1	(186.1)	91.0
(0.8)	(Gains)/Losses on disposal of Fixed Assets			(0.4)
(0.3)	(Surplus)/ deficits on Trading Undertakings			(0.2)
(0.4)	Income from Investment Properties			(0.3)
4.6	Interest payable and similar charges			5.4
0	(Gains)/Losses on early settlement of borrowing			(0.3)
(2.2)	Interest and Investment Income			(3.3)
0.3	Central Government Amending Report			0.1
1.8	Pension interest cost & expected return on pension assets			0.6
148.0	Net Operating Expenditure			92.6

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st MARCH 2007

2005/06		2006/07	2006/07	2006/07
£m		£m	£m	£m
148.0	Net Operating Expenditure brought forward			92.6
(55.4)	General Government Grants (Revenue Support Grant)			(7.0)
(43.7)	NNDR Redistribution			(36.5)
(49.6)	Demand on Collection Fund			(52.0)
(0.4)	Transfer from collection fund in respect of surplus			(0.8)
(1.1)	Total Surplus			(3.7)

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE FOR THE YEAR ENDED 31st MARCH 2007

The Income and Expenditure Account shows Torbay Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the Council is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- The General Fund Balance shows whether Torbay Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/06		2006/07
£m		£m
(1.1)	Surplus for the year on the Income and Expenditure Account	(3.7)
1.1	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (Note 38)	3.6
0	Increase in General Fund Balance for the Year	(0.1)
(2.7)	General Fund Balance Brought Forward	(2.7)
(2.7)	General Fund Balance Carried Forward	(2.8)
(2.7)	Amount of General Fund Balance generally available for new expenditure	(2.8)
	Note:	
(2.7)	Amount of Earmarked Reserve held by schools under local management schemes	(3.4)

Note: There is no cumulative effect on Reserves of any prior period adjustments.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31ST MARCH 2007

This Statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2005/06		2006/07
£m		£m
(1.1)	(Surplus)/Deficit for the year on the Income and Expenditure Account	(3.7)
(25.4)	Surplus arising on revaluation of fixed assets	(11.8)
(6.4)	Actuarial (gains)/losses on pension fund assets and liabilities	0.1
0.3	Collection Fund balance attributable to Torbay Council	0.3
<u>(32.6)</u>	Total recognised gains for the year	<u>(15.1)</u>

2005/06		BALANCE SHEET AS AT 31st MARCH 2007		<i>Note</i>	2006/07	
		Continued				
£ m	£ m				£ m	£ m
	280.8	Brought forward				325.6
		Current Assets				
0.9		Landfill Allowances (LATS)		23	0.8	
0.3		Stock and Work in Progress		41	0.3	
16.7		Debtors (net of provision for bad and doubtful debt)		11	13.1	
46.8		Temporary Investments		22.5	38.1	
1.8		Payments in Advance			1.9	
2.3		Cash and Bank			3.0	
	<u>68.8</u>					<u>57.2</u>
	349.6	Total Assets				382.8
		Current Liabilities				
(0)		Long Term borrowing due within 12 months		26.1	(2.0)	
(16.0)		Creditors		10.1	(16.6)	
(1.0)		Deferred Liabilities due within 12 months		26.3	(0.9)	
(1.3)		Bank Overdraft			(2.3)	
(3.2)		Receipts in Advance			(3.2)	
(5.3)		Capital Grants and Contributions Unapplied			(4.0)	
	<u>(26.8)</u>					<u>(29.0)</u>
	322.8	Total Assets less Current Liabilities				353.8
(86.8)		Borrowing repayable within a period in excess of 12 months		26.1	(90.8)	
(23.2)		Deferred Liabilities		26.3	(22.3)	
(24.0)		Government Grant & Contributions Deferred account		21	(35.8)	
(1.0)		Creditors due in excess of 12 months		10.2	(1.3)	
(2.2)		Provisions		31	(1.5)	
(67.3)		Liability related to defined benefit pension scheme		29.1	(68.7)	
	<u>(204.5)</u>					<u>(220.4)</u>
	118.3	Total Assets less Liabilities				133.4

2005/06		BALANCE SHEET AS AT 31st MARCH 2007		<i>Note</i>	2006/07	
			Continued			
£ m	£ m				£ m	£ m
			Financed by:-			
141.3		Fixed Asset Restatement Account		35.2	152.7	
19.3		Capital Financing Account		35.3	21.3	
	160.6					174.0
	3.5	Usable Capital Receipts Reserve		35.4		2.2
	(67.3)	Pension Reserve		29.1		(68.7)
	14.9	Earmarked Reserves		35.6		18.9
	2.7	Schools Balances		35.5		3.4
	2.7	General Fund Reserve				2.8
	0.6	Collection Fund				0.3
	0.6	Trading Operations Reserves				0.5
	<u>118.3</u>	Total Net Worth				<u>133.4</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH 2007

This statement summaries the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

Revenue Activities

2005/06			2006/07	
£ m	£ m		£ m	£ m
		Cash Outflows		
115.5		Cash paid to and on behalf of employees	112.1	
8.5		Precepts paid	8.9	
26.2		NNDR payments to national pool	29.0	
36.4		Housing Benefit paid out	40.7	
127.1		Other operating cash payments	135.8	
	313.7			326.5
		Cash Inflows		
(2.8)		Rents	(2.9)	
(49.0)		Council Tax receipts	(51.6)	
(27.5)		Non-domestic rate income receipts	(28.8)	
(44.9)		Receipt from National NNDR Pool	(36.5)	
(55.4)		Revenue Support Grant	(7.0)	
(35.9)		DWP grants for housing benefits	(38.2)	
(52.1)		Other Government grants <i>Note 5</i>	(119.6)	
(26.1)		Cash received for goods and services	(17.6)	
(28.9)		Other Operating Cash Receipts	(36.6)	
	(322.6)			(338.8)
	<u>(8.9)</u>	Net Cash Flow from Revenue Activities <i>Note 8</i>		<u>(12.3)</u>

Management of Liquid Resources				
2005/06			2006/07	
£ m	£ m		£ m	£ m
18.4		Net Increase/(decrease) Short term investments	(8.7)	
2.0		Net Increase/(decrease) in long term investments	16.0	
	<u>20.4</u>			<u>7.3</u>
Financing				
2005/06			2006/07	
£ m	£ m		£ m	£ m
		Cash Outflows		
18.4		Repayment of Amounts Borrowed	64.8	
1.0		Devon County Transferred Debt	1.0	
0.1		Capital element of finance leases and covenant	0	
	<u>19.5</u>		<u>65.8</u>	
		Cash Inflows		
<u>(51.0)</u>		New Loans Raised	<u>(70.8)</u>	
	<u>(31.5)</u>			<u>(5)</u>
	<u>1.3</u>	Net (Increase)/Decrease in Cash		<u>0.3</u>

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NOTES TO THE CORE FINANCIAL ACCOUNTS

1 Acquired or Discontinued Operations

There are no acquired or discontinued operations.

2 Agency

Torbay Council undertakes work for South West Water Services Ltd on Developer Services work under a partnership agreement with Pell Frishman. This work is included in the trading accounts in note 42.

3 Audit Costs

In 2006/07 Torbay Council incurred the following fees relating to external audit and inspection:

Restated 2005/06 £000's		2006/07 £000's
218	Fees payable with regard to external audit services carried out by the appointed auditor, PricewaterhouseCoopers LLP	233
60	Fees payable in respect of statutory inspection under s10 Local Government Act 1998	126
45	Fees payable to the Audit Commission for the certification of grant claims and returns by appointed auditor, PricewaterhouseCoopers LLP	44
16	Fees payable in respect of any other services provided by the Appointed Auditor.	0

Note: All Audit Costs including grant claim work are now accrued on a relevant year basis. The 2005/06 comparative figures have been restated to reflect this change. This increased audit fees in 2005/06 by £28,000.

4 Building Control Trading Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between chargeable and non-chargeable activities.

Building Regulations Charging Account 2006/07			
	Chargeable	Non – Chargeable	Total Building Control
	2006/07	2006/07	2006/07
	£ 000	£ 000	£ 000
Expenditure			
Employee Expenses	251	170	421
Transport	12	8	20
Supplies and Services	11	7	18
Central Support	51	28	79
Total Expenditure	325	213	538
Income			
Building Control Fees	(384)	0	(384)
Other Income	(1)	(7)	(8)
Total Income	(385)	(7)	(392)
(Surplus) / Deficit for the Year	(60)	206	146
Comparatives for 2005/06:			
	£000	£000	£000
Expenditure	335	182	517
Income	(408)	(12)	(420)
(Surplus) / Deficit for the Year	(73)	170	97

5 Cash Flow Statement - Analysis of Other Government Grants

2005/06	Related Service Area	2006/07
£m		£m
20.1	Education (note 1)	86.2
8.9	Social Services	6.8
5.9	Supporting People	5.9
10.4	Council Tax Benefit	11.9
6.8	Other Grants	8.8
52.1		119.6

Note 1: From 2006/07 reflects the Dedicated Schools grant.

6 Cash Flow Statement - Reconciliation of Movements in Cash and Net Debt

Reconciliation of Movements in Cash & Net Debt			
2005/06		2006/07	
£ m	£ m	£ m	£ m
(8.9)	Cash Flow from Revenue Activities	(12.3)	
18.1	Cash Flow from Capital Activities	10.1	
3.2	Cash Flow from Investments and Servicing of Finance	0.2	
	12.4		(2.0)
(18.4)	Cash Flow from Liquid Resources	8.7	
(2.0)	Cash Flow from Investments (over one year)	(16.0)	
31.5	Cash Flow from Financing	5.0	
1.3	Change in Cash Balances	0.3	
	12.4		(2.0)

7 Cash Flow Statement - Movement of Financing and Liquid Resources

Movement of Financing and Liquid Resources				
	As at 31 st March 2006	As at 31 st March 2007	Movement in year	
	£m	£m	£m	
Financing Items				
External Long Term Borrowing (net movement)	86.8	92.8	6.0	
Devon County Transferred Debt	24.2	23.2	(1.0)	
	111.0	116.0	5.0	
Liquid Resources				
Temporary Investments	(46.8)	(38.1)	8.7	
Investments (over one year)	(2.0)	(18.0)	(16.0)	
	(48.8)	(56.1)	(7.3)	
Cash Related				
Net Cash Overdrawn	1.3	2.3	1.0	
Cash In Hand	(2.3)	(3.0)	(0.7)	
	(1.0)	(0.7)	0.3	
Total Movement of Financing & Liquid Resources	61.2	59.2	(2.0)	

Liquid resources are current asset investments that are readily disposable by the Council without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market. Investments that are due to be repaid after one year have been included in liquid resources but separately identified.

8 Cash Flow Statement – Reconciliation of Revenue Cash Flow

Reconciliation of Income & Expenditure Account to Revenue Cash Flow			
2005/06 (restated)		2006/07	
£ m	£ m	£ m	£ m
	(1.1)	Income & Expenditure Account	(3.7)
	(4.6)	Depreciation amortisation and impairment	(4.9)
	25.4	Revaluation	11.8
	0.8	Profit on disposal	0.4
	(26.4)	Reserves and other non cash movements	(15.5)
		Items classified elsewhere on cash flow:	
(4.3)		Interest Paid	5.2
1.1	(3.2)	Interest Received	(5.0)
	(0.3)	Increase/(decrease) in stock and work-in-progress	0
	(0.1)	(Increase)/decrease in creditors/receipts in advance	(0.2)
	(0.6)	(Increase)/decrease in provisions	0.7
	0.9	Increase/(decrease) in debtors/payments in advance	(1.4)
	0.3	Contributions (to)/from Collection Fund	0.3
	<u>(8.9)</u>	Revenue Activities Net Cash Flow	<u>(12.3)</u>

9 Contingent Liabilities

Torbay Coast and Countryside Trust

The Council has agreed to act as a guarantor to the Torbay Coast and Countryside Trust for £710,000. This is relating to a bank loan of £200,000 and an overdraft facility of £510,000, in respect of capital work and initial trading at Occombe Farm. The loan was taken out in 2005 and is repayable over 10 years. The overdraft as at 31st March 2007 was £430,000 (£213,000 2005/06).

PLUS Limited

The Council has agreed to guarantee an overdraft to Barclays bank to a value of £0.125 million.

PLUS has been admitted to the Devon County Pension Fund. The former Council staff are now employed by PLUS 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.

The Council is not aware of any uncertainties regarding these liabilities. However the guarantee to Torbay Coast and Countryside Trust is subject to regular review.

Single Status (Pay Modernisation)

The Council along with others nationally is facing a financial risk in relation to the settlement of potential claims for back pay under Equal Pay legislation.

Two issues affecting the financial risk; the additional pay costs and potential back pay. The work on implementing single status is ongoing, no claims have been received and therefore no provision for claims has been included in the accounts.

In recognising the potential for such claims the council is not conceding that any such claims will be paid in the future.

10 Creditors

This heading reflects the value of monies owed by the Council as at 31st March 2007.

10.1 Creditors due within 12 months

31 st March 2006		31 st March 2007
£ m		£ m
Restated		
12.0	Creditors (note 1)	11.6
1.9	Revenue & Customs	2.1
1.4	Torbay Care Trust	2.1
0.7	Devon County Pension Fund	0.8
<u>16.0</u>		<u>16.6</u>

Note 1 – 2005/06 restated to reflect the share of the Collection Fund “due” to Major Precepting bodies as a creditor. This increased creditors by £0.1m.

10.2 Creditors due in excess of 12 month

31 st March 2006		31 st March 2007
£ m		£ m
0.3	Legal Agreements and Bonds	0.4
0.7	PFI Renewal Fund	0.9
<u>1.0</u>		<u>1.3</u>

11 Debtors

This heading reflects the value of monies owed to the Council as at 31st March 2007.

31 st March 2006		31 st March 2007	
£ m		£ m	
4.0	Sundry Debtors	4.0	
10.9	Accrued income	7.5	
	Significant debtors are:-		
0	- NNDR Payments to Pool	1.0	
1.3	- Revenue & Customs re VAT	1.1	
0.1	Assisted Car Purchase	0	
0.2	Liability Orders for Community Charge, Council Tax and NNDR	0.2	
0.1	Other Debtor systems	0	
1.3	Housing Benefit Recovery Control	1.4	
2.2	Council Tax Arrears	2.3	
0.5	NNDR Arrears	0.7	
20.6	Sub-total	18.2	
	Bad Debt Provision:		
(1.0)	Bad Debt Provision – Other Debtors	(1.9)	
(1.2)	Housing Benefit recovery	(1.3)	
(0.2)	NNDR arrears	(0.3)	
(1.5)	Council Tax arrears	(1.6)	
16.7	Total	13.1	

12 Dedicated Schools Grant (DSG)

For 2006/07, the arrangements for government support for the funding of schools changed. The expenditure on schools in 2006/07 was funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG).

Previously funds were provided as part of the council's overall Revenue Support Grant. In 2006/07, the Council received a specific grant of £63.3m that has been credited against the Education service outturn in the Income and Expenditure Account that would previously have been treated as part of Revenue Support Grant in corporate income. The difference between 2006/07 figures and comparative figures for 2005/06 for these two lines is substantially explained by this change.

DSG is ring-fenced 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 underspends 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. This was evidenced by the Chief Financial Officer's certification of the Section 52 (Schools outturn) statement to the Department for Education and Skills.

Details of the deployment of DSG receivable for 2006/07 are as follows:

Schools Budget Funded by Dedicated Schools Grant			
	Central Expenditure	Individual Schools	Total
	£ m	Budget £m	£m
Original grant allocation to Schools Budget for the current year in the authority's budget	(7.6)	(55.7)	(63.3)
DSG receivable for the year	(7.6)	(55.7)	(63.3)
Actual expenditure for the year	7.7	55.7	63.4
Over / (under) spend for the year	0.1	0	0.1
Over / (underspend) carried forward to 2007/8	0.1	0	0.1

13 Deferred Charges

Expenditure on Deferred Charges relates to capital expenditure on assets not owned by the Council, for which grants have been given to third parties, or Council revenue expenditure which has been funded from capital resources (only with Government permission). Because no asset is created, the expenditure is written out to revenue in the year in which it is incurred, leaving no balances at the end of the year.

	Balance 1st April 2006	Expenditure In Year	Discharged	Balance 31st March 2007
	£ m	£ m	£ m	£ m
Private Sector Grants for Renewal & Disabled Facilities	0	0.9	(0.9)	0
Grants to Housing providers	0	0.9	(0.9)	0
Other Grants	0	0.1	(0.1)	0
Local Public Service Agreements (Capitalised Revenue exp)	0	0.7	(0.7)	0
Expenditure on Voluntary Aided /Controlled Schools	0	0.5	(0.5)	0
Total	0	3.1	(3.1)	0

14 Developer Contributions (Section 106 Receipts)

Receipts under Section 106 (of the Town & Country Planning Act 1990) are contributions payable by landowners/developers under planning agreements towards funding any increased demand for Council services which results from granting planning permissions, e.g. towards provision of school places, highway improvements, new transport links, affordable housing (if not provided on site) and on-going maintenance of public amenities. The sums are payable when trigger points are reached during the developments. The sums received can only be spent in accordance with the agreements with the developers. Any unspent amounts are held in the Balance Sheet in the Capital Contributions Unapplied Account (capital contributions) or Receipts in Advance (revenue contributions) until required.

The balance on Capital Contributions Unapplied Account is now disclosed as a receipt in advance on the Council's balance sheet. The major balances held at 31 March 2007 are as follows –

2005/06 £000's	Purpose held	2006/07 £000s
	Capital Contributions -	
22	Education	45
170	Housing	219
59	Highways & Transport	55
45	Other	41
296		360
388	Revenue Contributions	652

15 Employees

The number of employees whose taxable remuneration exceeds £50,000 while employed by Torbay Council, is set out in the table below. The number of school based staff within each band is noted in brackets.

Number of Employees 2005/06	Remuneration Band	Number of Employees 2006/07
23 (14)	£50,000 to £59,999	27 (18)
7 (3)	£60,000 to £69,999	6 (3)
6 (4)	£70,000 to £79,999	6 (4)
2 (1)	£80,000 to £89,999	2 (1)
3 (0)	£90,000 to £99,999	1 (0)
0	£100,000 to £109,999	1 (0)
0	£110,000 to £119,999	0
0	£120,000 to £129,999	0
0	£130,000 to £139,999	1 (0)
0	£140,000 to £149,999	0
41 (22)		44 (26)

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.

16 The Euro

During the last financial year, the Council has continued to review the impact of the Euro on its ongoing operations. Until a decision is made as to whether the UK should adopt the Euro, the expenditure on Euro activities will be absorbed within existing budgetary provision.

17 Events after the Balance Sheet Date

Statement of Accounts Authorised for Issue

The 2006/07 Statement of Accounts was authorised for issue by the Chief Finance Officer, R Thorpe BA CPFA, Director of Finance on the 27th September 2007. Events after the 'authorised for issue' date have not been recognised in 2006/07 Statement of Accounts.

Events After Balance sheet date

From May 2007 Brixham Parish Council will exist as a minor precepting body on the Council's Council Tax Requirement. The budget for 2007/08 has been set at £212,000. It is expected that management of allotments within the parish area will transfer to the new body.

18 Exceptional Items

There are no exceptional items to report for 2006/07

19 Fixed Assets

19.1 Movement of Fixed Assets

During the year revaluations increased the gross value of tangible fixed assets by over £31 million. These revaluations were part of the cyclical revaluation programme but also reflect significant capital expenditure in the year, particularly within schools including Mayfield and Coombe Pafford Special Schools, Paignton and Brixham Community Colleges and new nurseries and children's centres facilities at Watcombe and Chestnut Primary schools.

Assets under Construction - £0.8 million is included in the Balance Sheet value of Non-Operational Fixed Assets to reflect current capital investment on incomplete assets. The net value has reduced from the value at 31st March 2006 reflecting the assets that reached practical completion and became operational in the year replaced by work-in-progress on new schemes.

The following tables analyse the movement in three types of fixed assets: Operational, Non Operational and Intangible assets:

Movement of Operational Assets 2006/07					
	Land & Buildings	Infrastructure Assets	Community Assets	Vehicle, Plant & Equipment	Total
	£ m	£ m	£ m	£ m	£ m
Gross Book Value as at 31 March 2006	227.4	44.5	0.4	8.5	280.8
Accumulated Depreciation	-6.2	-5.0	0	-4.6	-15.8
Accumulated Impairment	-0.2	0	0	0	-0.2
Net Book Value as at 31 March 2006	221.0	39.5	0.4	3.9	264.8
Revaluations in Year applicable from 1 April (Rolling Programme)					
- Gross Value	8.7	0	0	0	8.7
- Depreciation written off	1.4	0	0	0	1.4
Re-classification (net value)	-0.1	0	0	0	-0.1
Restated Net Book Value 1 April 2006	231.0	39.5	0.4	3.9	274.8
Movement in year 2006/07					
Capital Expenditure in year	12.6	7.0	2.1	0.4	22.1
Disposals –Sales	0	0	0	-0.2	-0.2
Revaluations (other than Rolling Prog.)	2.0	0	0	0	2.0
	14.6	7.0	2.1	0.2	23.9
Depreciation in year					
Depreciation for year	-2.5	-1.0	0	-0.7	-4.2
Depreciation on assets sold/disposals	0	0	0	0.1	0.1
Revaluations	0.8	0	0	0	0.8
	-1.7	-1.0	0	-0.6	-3.3
Impairment for year					
Impairment for year	-0.1	0	0	0	-0.1
Revaluations	0	0	0	0	0
Net Book Value as at 31 March 2007	243.8	45.5	2.5	3.5	295.3

Movement of Non Operational Assets 2006/07

	Investment Properties £ m	Surplus Properties £ m	Assets Under Construction £ m	Total £ m
Gross Book Value as at 31 March 2006	4.7	0.4	2.1	7.2
Net Book Value as at 31 March 2006	4.7	0.4	2.1	7.2
Revaluations in Year applicable from 1 st April (Rolling Programme)				
Re-classification	-0.1	0.2	0	0.1
Restated Net Book Value 1 April 2006	4.6	0.6	2.1	7.3
Movement in year 2006/07				
Disposals –Sales	0	-0.5	0	-0.5
Revaluations (other than Rolling Programme)	0	0.2	-1.3	-1.1
	0	-0.3	-1.3	-1.6
Net Book Value as at 31 March 2007	4.6	0.3	0.8	5.7

Movement in Intangible Assets 2006/07	
	Total
Purchased Software Licences	£ m
Original Cost	2.5
Amortisation to 1 April 2006	(0.9)
Balance as at 1 April 2006	1.6
Additions	0.2
Amortisation written off	(0.5)
Balance as at 31 March 2007	1.3

The costs are being written down over periods between 3 and 10 years depending upon the expected life of the software.

19.2 Capital Financing Requirement

The Capital Financing Requirement (CFR) was introduced 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.

The net movement in the Capital Financing Requirement illustrates the change in the underlying need for the Council to borrow during the year, to fund capital investment which has not been funded immediately from resources such as grants, capital receipts and direct funding from revenue.

2005/06		2006/07
£ m		£ m
83.8	Opening Capital Financing Requirement	92.9
	Capital Investment in Year:-	
20.0	Tangible Fixed Assets	22.1
1.0	Intangible Assets	0.2
3.8	Deferred Charges	3.1
24.8	Total Expenditure in Year	25.4
	Direct funding of Capital Investment in the Year -	
(8.8)	Government Grants and Other Contributions	(14.5)
(2.3)	Capital Receipts	(2.1)
(1.1)	Direct Revenue Funding	(1.0)
(12.2)		(17.6)
12.6	Resultant Increase in Borrowing requirement from Spend in Year	7.8
	Revenue Provisions for the repayment of Debt:-	
(2.4)	Minimum Revenue Provision	(2.9)
(1.0)	Debt Transferred from Devon County Council	(1.0)
(0.1)	Brixham Harbour Covenant	0
(3.5)	Reduction in Borrowing from provisions set aside in the Year	(3.9)
9.1	Net Increase in Capital Financing Requirement	3.9
92.9	Closing Capital Financing Requirement	96.8
	The increase in the underlying need to Borrow is represented by -	
8.4	Borrowing Supported by the Government	8.6
4.2	Borrowing Not Supported by the Government (Prudential Borrowing)	(0.8)
(3.5)	Provision set aside for the repayment of debt	(3.9)
9.1		3.9

19.3 Significant Commitments under Capital Contracts as at 31st March 2007

	£ m	£ m
Children Services		
Secondary Schools	1.1	
Other Projects	<u>0.2</u>	1.3
Adults		
PARIS IT system		0.1
Housing		
Grants to Registered Social Landlords		0.6
Transport		
Integrated Transport schemes		0.2
Environment		
Fleet Purchases	0.1	
Torquay South Drainage	0.1	
Princess Promenade	0.7	
Paignton Flood Alleviation schemes	<u>0.2</u>	1.1
Torbay Development Agency		
Marine Services and Economic Regeneration		0.1
Culture		
Torre Abbey Renovation	2.9	
Palace Theatre	<u>0.1</u>	3.0
Total		<u>6.4</u>

19.4 Assets

The assets of the Council comprise of:- (figures in brackets show 2005/06 comparatives)

Primary Schools	32 (32)	Includes 9 Voluntary Aided Schools where the Council owns the site only; 2 Foundation Schools where the asset rests with the governing body and 1 PFI school where the asset rests with Torbay Schools Services Ltd*
Secondary Schools	8 (8)	Includes 1 Voluntary Aided School where the Council owns the site only; 4 Foundation Schools where the asset rests with the governing body and 1 PFI school (which is also a Foundation School) where the asset rests with Torbay Schools Services Ltd *
Special Schools	3 (3)	
Libraries	4 (4)	
Corporate Buildings		Including Torquay Town Hall, Oldway Mansion and Brixham Town Hall
Torre Abbey and Spanish Barn		A Community asset
Depots		Yalberton and Borough Road
Off Street Car Parks		
Leisure Centres and Pools		Torbay Leisure Centre (Leased out)
Theatres		Princess (Leased out); Babbacombe; Brixham and Palace Avenue
Community Centres		
Information Centres		
Parks and Recreational Facilities		
Cliff Railway		
Piers and Beaches		22 Miles of Coastline (22)
Public Conveniences		
Public Shelters		
Cemeteries; Crematorium and Closed Churchyards		
Riviera Centre		Council owns freehold. Leased to Riviera Centre International Limited.
Harbours		Fish Quays and Infrastructure
Industrial Units and development land		
Social Care Properties		Various care provider units for both adults and children. (some leased to Torbay Care Trust).
Other Community Asset Holdings		Berry Head Country Park (leased to Torbay Coast & Countryside Trust); Cockington Land Holdings (leased to Torbay Coast & Countryside Trust); Victoria Park.
Leased Commercial Property		Waterside Caravan Park; The Pavillion; Goodrington Beach Resort; Torquay Golf Club; Victoria Shopping Centre; Gala Bingo Club; Model Village; Vaughan Parade Properties; Parkfield Nursery

* Westlands and Homelands Schools are PFI schools provided by Torbay Schools Services Ltd. The fixed assets are not on the Council's balance sheet. **Deferred assets** has been identified which will be built up over the period of the PFI contract (26 years) representing the residual value of the assets which will transfer back to the Council at the end of the contract term. **Deferred consideration** has also been identified to acknowledge the economic benefit to the council, which accrues from providing a site to the school at a peppercorn rent.

19.5 Valuation Information

Valuation of Fixed Assets carried at current value - the following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. Valuations of Land & Buildings are carried out by the Council's internal Valuer Sam Partridge A.R.I.C.S. The basis for valuation is set out in the Statement of Accounting Policies.

	Land & Buildings	Vehicles & Plant	Non- Operational Properties	Total
	£ m	£ m	£ m	£ m
Valued at Historical Cost	0	8.3	0	8.3
Valued at Current Value in year				
2006/07	93.4	0.5	0.8	94.7
2005/06	67.2	0	1.2	68.4
2004/05	29.8	0	0	29.8
2003/04	41.1	0	3.7	44.8
2002/03	19.1	0	0	19.1
Total Gross Value	250.6	8.8	5.7	265.1

19.6 Foundation Schools

The Council is required to transfer ownership of Fixed Assets and long term liabilities to the Governing Bodies of individual schools that have elected to adopt Foundation Status. 7 schools have elected to adopt Foundation status (one of which is a PFI school where the building asset rests with the provider during the contract period). Even though the Council's title to the asset passes to the Governing Bodies, the value of the fixed assets (totalling £49.6m (£46.0m 2005/06) is included in the Council's balance sheet value of fixed assets reflecting the fact that these properties can only be used as schools ("substance over form").

20 Gains/Losses on disposals of Assets and other capital receipts

Gains and Losses on disposals of assets are recorded in the Income and Expenditure account by recording the cash receipt from the sale of assets compared to the costs of disposal and the value of the asset on the date of disposal. For the majority of assets sold it is anticipated that the (re)valuation of the asset at the date of disposal will be the same value as the cash receipt.

The Council also receives other cash receipts in a year which are not directly related to a disposal of an asset. These primarily relate to the Council's share of right to buy receipts relating to the transfer of its Housing stock to Riviera Housing Trust in 2001.

Analysis of Capital Receipts in year

2005/06		2006/07
£ m		£ m
0.7	Council share of Right-to-Buy receipts from sale of Housing transferred to the Riviera Housing Trust	0.4
0.9	Sale of Assets	0.5
<u>1.6</u>		<u>0.9</u>

Analysis of Gain/Loss on Disposal of Assets 2006/07

Asset	Sale Receipt	Receipts in Kind	Value of asset	Net Gain/loss on disposal
	£ m	£ m	£ m	£ m
Housing Right to Buy receipts	0.4	0	0	0.4
Surplus Assets	0.5	0.1	(0.6)	0
Gains/(losses) on disposal	0.9	0.1	(0.6)	0.4

21 Government Grants & Contributions Deferred Accounts

The Government Grants & Contributions Deferred Accounts show the external funding used to finance capital investment immediately from monies received from Government Bodies and private contributions. Amounts are transferred out of these Accounts over time into the General Fund Revenue Account as the capital assets, which have been acquired using this funding, depreciate.

The balance of this account is now disclosed on the liabilities section of the Council balance sheet.

2005/06		2006/07
£ m		£ m
16.7	Opening Balance as at 1st April	24.0
8.1	Grants and contributions deferred in year	12.8
(0.8)	Released to Revenue	(1.0)
0	Released to Capital Financing account	0
24.0	Balance as at 31st March	35.8

22 Investments

22.1 Association of District Councils

The Council is the registered holder of £30,000 of Zero Coupon First Mortgage Debenture Stock 1996/2011 which is constituted and secured by a Trust Deed dated 28th July 1989 and made between (1) the Association of District Councils (Properties) Limited and (2) Eagle Star Trust Company Limited as Trustees for the Stockholders.

22.2 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.

22.3 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.

22.4 Money Market Investments

As at 31/3/07 the Council had invested, as part of its Treasury management function, £18 million (2006/07 £2.0m) with 7 different institutions.

The table below shows an analysis of the Money Market Investments repayments:

Total Invested	Analysis of Investments by due dates	Total Invested
31st March 2006		31st March 2007
£ m		£ m
2.0	1 up to 2 years	12.0
0	2 up to 3 years	6.0
2.0	Total	18.0

22.5 Temporary Investments

Temporary investments include £38.1m (£46.8m 2005/06) of short-term (money market) investments. As at 31/3/07 the Council is in the process of changing Fund Managers who have held a proportion of Council temporary investments. At the balance sheet date the Council had withdrawn money from Alliance Capital pending deposit of funds with a replacement fund manager in 2007/08.

23 Local Authority Trading Scheme (LATS) Assets and Liabilities

Current Assets

This reflects the recognition of the Landfill Allowances from DEFRA as an asset at a fair (market) value. The table below shows the calculation of the value of the asset at year end.

2005/06 £000's	Vintage	Allowance Tonnes	Fair Value £	2006/07 £m
0.88	2005/06	3,057	17.98	0.05
n/a	2006/07	41,604	17.98	0.75
0.88				0.8

The Allowances for both 2005/06 and 2006/07 have been valued at fair (market) value, i.e. at the

average trading value of allowances as determined by DEFRA at the end of the financial year.

Liability to DEFRA (included in provision)

This reflects the Council's usage of the allowances for the landfill of biodegradable municipal waste within the year recognised at a fair (market) value.

2005/06 £000's	Vintage	BMW Landfill Tonnes	Fair Value £	2006/07 £000's
(796)	2006/07	39,997	17.98	(719)
(796)				(719)

24 Leases

24.1 Operating Leases

The Council has entered into operating lease agreements to acquire vehicles, plant and equipment. Drawdowns up to 31st March 2007 totalled £8.0 million. (£8.0 million 2005/06).

The combined lease rentals incurred in 2006/07 amounted to £0.5 million (£0.6 million in 2005/06). The outstanding obligation on all operating lease drawdowns is £0.9 million.

24.2 Operating Leases (Future rental liabilities)

The profile and timing of the operating lease payments required is as follows:

Vehicle, Plant and Equipment 2005/06 £ m	Year Due	Vehicle, Plant and Equipment 2006/07 £ m
0.5	Within 1 year	0.4
0.4	1 to 2 years	0.4
0.5	2 to 5 years	0.1
0.0	Over 5 years	0
<hr/> 1.4 <hr/>	Total Due	0.9

24.3 Land and Property Leases

The Council also enters leases for the use of accommodation and also acts as a lessor in offering leases (rent) for its own property.

The Council as a lessee: The Council made a total of £0.5 million of lease (rent) payments in 2006/07, and it is anticipated that the payments will be at a similar level in 2007/08. (Subject to a de minimis of £10,000).

Property 2005/06 £ m	Year Due	Property 2006/07 £ m
0.0	Within 1 year	0.2
0.2	1 to 2 years	0.1
0.1	2 to 5 years	0.1
0.2	Over 5 years	0.1
<hr/> 0.5 <hr/>	Total Due	0.5

The Council as a lessor: The Council received a total of £2.1 million of lease (rent) payments in

2006/07. The gross value of these assets are £54.9 million with accumulated depreciation of £2.3 million.

25 Local Authorities (Goods and Services) Act 1970

The Council provides services to other local authorities and certain prescribed bodies under the Local Authorities (Goods and Services) Act 1970 as laid out below. The significant trading with such bodies with turnover greater than £200,000 is outlined in the table below:

2005/06		2006/07
£ m		£ m
0.5	Primary Care Trusts – Social Services	0
0	Provision of Transport and Property services to Torbay Care Trust	0.6
0.2	Various Public & External Bodies – Sale of printing services	0.2
0.1	Operational Services – Maintenance, Waste Collection, Tipping, Cleaning work, Supply of Goods & Materials and 24 hour Emergency Control for Devon County Council, Riviera Housing Trust, Teignbridge District Council and Housing Associations.	0.3
0.8		1.1

26 Long Term Borrowing & Deferred Liabilities

26.1 Long Term Borrowing

This heading reflects the borrowing undertaken by the Council to fund its capital programme. Any costs of borrowing are borne in the Statement of Movement on the General Fund Balance by 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 31st March 2006 £ m	Borrowing Repayable		Total Outstanding 31 March 2007 £ m
	Amounts falling due within one year		
0	Public Works Loans Board		2.0
0			2.0
	Amounts falling due in excess of one year		
5.0	Barclays Bank plc (LOBO)	<i>(Note 26.2)</i>	5.0
81.8	Public Works Loans Board		85.8
86.8	Total		90.8
86.8			92.8

The table below shows an analysis of the Long Term Borrowing repayable:

Total Outstanding 31st March 2006 £ m	Analysis of Loans by Maturity	Average Interest Rate	Total Outstanding 31st March 2007 £ m
0	Within 1 year	4.15%	2.0
2.0	1 up to 2 years	0	0
0	2 up to 3 years	0	0
0	3 up to 4 years	0	0
1.0	4 up to 5 years	0	0
2.0	5 up to 10 years	4.1%	1.0
7.5	10 up to 15 years	4.5%	2.0
5.3	15 up to 20 years	4.45%	3.0
23.0	20 up to 25 years	4.5%	2.5
46.0	Over 25 years	4.22%	82.3
86.8	Total	4.24%	92.8

26.2 Lenders Option Borrowers Option (LOBO)

The loan with Barclays Bank Plc is a LOBO loan (Lenders Option Borrowers Option), where after a short initial period of low interest, it then moves to a higher rate. 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.

26.3 Deferred Liabilities

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.

Transferred Debt principal outstanding at 31st March 2007 is £23.2 million, (2005/06 £24.2m).

Total Outstanding 31st March 2006 £ m	Deferred Liabilities	Total Outstanding 31st March 2007 £ m
	Amounts falling due within one year	
1.0	Devon County Council Debt Repayment	0.9
1.0		0.9
	Amounts falling due in excess of one year	
23.2	Devon County Council Debt Repayment	22.3
23.2		22.3
<u>24.2</u>	Total	<u>23.2</u>

27 Members Allowances

Member's Allowances for 2006/07 were £0.428million (£0.379m in 2005/06).

From the 24th October 2005 the Council adopted a Mayoral political structure with an elected Mayor and Cabinet. To support this change a revised Members Allowances scheme was approved. The current allowance scheme can be found on the Council's website at www.torbay.gov.uk/index/council/councillors-democracy/constitution.htm.

28 Minimum Revenue Provision - Provision for Repayment of External Debt

The net amount charged to revenue in compliance with the statutory requirement to set aside a Minimum Revenue Provision for the repayment of external debt is £2.9 million (£2.4m 2005/06) calculated as follows:-

2005/06		2006/07
£ m		£ m
3.3	4% of Capital Financing Requirement (CFR)	3.7
(0.2)	Adjustment allowed under Capital Finance Regs	(0.2)
(0.7)	Commutation adjustment	(0.6)
<u>2.4</u>		<u>2.9</u>

The excess (£2.5million) of depreciation, impairment and the effect of deferred charges and intangible assets charged to Net Operating Expenditure over the Minimum Revenue Provision is reversed through the Statement of Movement on the General Fund Balance by an adjustment with the Capital Financing Account.

The Capital Finance Amendment Regs. 2007 changed the method of calculation from 2006/07. (The 2005/06 calculation has been re-presented in the new format for comparison). 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.

29 Pensions

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

29.1 Local Government Scheme

Torbay Council participates in the Local Government Pension Scheme, which is administered by Devon County Council. The Local Government Pension Scheme is a defined benefit scheme based on final pensionable salary. This means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Further information on the scheme and its performance can be found in Devon County Council's Superannuation Fund's Annual Report which is available upon request from the Director of Resources, Devon County Council, County Hall, Exeter, EX2 4QJ. Some information is also available on the Devon County Council website at www.devon.gov.uk/pensions.

In accordance with Financial Reporting Standard No 17 – Retirement Benefits (FRS 17), Torbay Council is required to:-

- disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.
- recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement on General Fund Balance.

Main Financial Assumptions:

The latest actuarial valuation of the Devon County Council Pension Fund took place on 31st March 2004. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were:

31 st March 2006			31 st March 2007	
% pa			% pa	
3.0	Rate of inflation		3.2	
4.5	Rate (long term) of increase in salaries		4.7	
3.0	Rate of increase to pensions in payment		3.2	
3.0	Rate of increase to deferred pensions		3.2	
4.9	Discount Rate		5.3	

The market value of the assets of the Devon County Council Pension Fund at 28 February 2007 was £2.14bn. The assets as at 31 March 2007 have been estimated using index returns between 28 February 2007 and 31 March 2007. The asset values used as at 31st March 2007 are set out below.

Long Term rate of return expected as at 31 st March 2006 (% pa)	Estimated value as at 31 st March 2006 £m		Long Term rate of return expected as at 31 st March 2007 (% pa)	Estimated value as at 31 st March 2007 £m
7.3	1,359.27	Equities	7.7	1,493.51
6.3	191.80	Property	6.7	216.86
4.3	296.00	Government Bonds	4.7	299.00
4.9	12.71	Corporate Bonds	5.3	17.51
4.6	111.70	Other	5.6	152.64
6.6	1,971.48	Total	7.0	2,179.52

which can be further analysed as follows:

As at March 31st 2003	As at March 31st 2004	As at March 31st 2005	As at March 31st 2006		Year Ending 31 st March 2007	
£m	£m	£m	£m		£ m	%
(23.0)	14.2	7.1	23.2	Difference between expected And actual return on scheme assets	1.7	0.9
0.5	0	3.2	(0.4)	Experience gains and losses on scheme liabilities	(0.4)	(0.1)
0	0	(41.3)	(16.4)	Change in Assumptions	(1.4)	(0.6)
(22.5)	14.2	(31.0)	6.4	Total Actuarial Gain/(Loss)	(0.1)	

Analysis of amount charged to the Income & Expenditure Account and the Statement of Movement on the General Fund Balance

The following transactions have been made in the Income & Expenditure and the Statement of Movement on the General Fund Balance during the year.

2005/06		Local Government Scheme		2006/07
£ m				£ m
Income and Expenditure Account				
Net Cost of Services				
7.2	-	Current Service Cost		7.5
0.8	-	Past Service Cost		0.4
(2.9)	-	Curtailment/Settlement – see note 1 below		0
Net Operating Expenditure				
11.1	-	Interest Cost		11.6
(9.3)	-	Expected Return on Assets in the Scheme		(11.0)
Statement of Movement on General Fund Balance				
1.1	-	Reversal of net charge made for retirement benefits in accordance with FRS17		(1.3)
8.0		Actual Amounts charged against council tax for pensions in year		7.2

Note 1: In 2005/06 an allowance was made for a curtailment arising from over 500 Torbay Adult

Care Trust staff, (formally Council employees), ceasing to be active members of the Fund as at 1st December 2005 and receiving deferred pensions, with a consequential “early leaver” profit to the fund estimated at £2.9 million. The actuary anticipated that some of these members were likely to elect to transfer their past service benefits to the NHS pension scheme on special terms during 2006/07. However this has been delayed and is now expected to be reflected as a settlement in the 2007/08 FRS17 disclosures.

Torbay Council’s contribution rate over the accounting period was 282% of member contributions (2005/06 268%). The contribution rate for 2007/08 is 296%. These figures include the past service element of the contribution rate.

Analysis of Results:

Current Service Costs

The Current Service Cost is based on the assumption at the start of each year and the estimated pensionable pay over that year. The financial assumptions at 31 March 2007 were more conservative than those at 31 March 2006 which means the current service cost this year would be higher than last year ignoring any changes in pensionable pay. Any change in pensionable pay since last year will also affect the Current Service Cost figure.

Under the projected unit method the current service cost will increase as the members approach retirement

This increase in Current Service Cost is partially offset by:

- the introduction of the assumption made for commutation; and
- moving the allowance for administration expenses from current service cost to the expected return on assets, in line with what the actuaries understand the emerging view of auditors to be regarding the treatment of expenses under FRS17.

Analysis of Amounts recognised in Statement of Total Recognised Gains and Losses and the

Statement of Movement on General Fund Balance

Actual return less expected return on pension scheme assets

During the year ended 31 March 2007, the investment return on the Fund's assets was reasonably close to the assumptions set at the start of the year. This can be seen by the relatively small figure in the 'Actual return less expected return on pension scheme assets'.

Change of assumptions

The financial assumptions underlying the calculation of the liabilities differ between the two accounting dates, see 'Main Assumptions' above. This has reduced the value placed on the liabilities.

The demographic assumptions are the same as those used last year with the following exceptions:

- The actuaries have assumed that 25% of members will commute the maximum amount of pension possible. This is a reduction from the assumption of 50% used for FRS17 accounting figures last year, due to experience of the Devon County Council Pension Fund.
- The post-retirement mortality assumption has been strengthened.

This has increased the value placed on the liabilities.

The overall effect of these changes is to place a value on the liabilities at the year end that is greater than was anticipated, resulting in a marginal loss in the "Change in assumptions" section of the Total Actuarial Gain/Loss.

Experience Gains and Losses

Experience gains/losses on the liabilities are small as the roll-forward method assumes that most experience is in line with the assumptions. The only experience item taken into account is the level of pension increases that has been granted.

29.2 Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers Pension Scheme, administered by Capita. It provides teachers with defined benefits on their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2006/07 the Council was due to pay £5.0 million (£4.8 million in 2005/2006) to the Pensions Agency in respect of teachers' retirement benefits, which represents 13.6% (13.5% in 2005/2006) of teachers' pensionable pay. For 2006/7 the employers contribution rate was 13.5% changing to 14.1% from 1st January 2007. With regard to the Teachers Pensions scheme there were £0.6m contributions remaining payable at the year end of which £0.4m was employers contributions.

The scheme is a defined benefit scheme, administered by Capita. Although the scheme is unfunded, Capita uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities like Torbay Council. However it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

There were no additional benefits awarded upon early retirement outside the Teacher's scheme.

29.3 Contributions to Devon County Unfunded Discretionary Pensions

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 FRS17 retirement benefits apply. Therefore these amounts have been disclosed as amounts payable to Devon County Council as they fall due each year. In 2006/07 these amounted to £0.77 million (£0.75 million in 2005/2006).

The Council's liability is to Devon County Council in relation to unfunded pensions prior to 1998. It

is estimated that, if FRS17 applied to these contributions, the total liabilities in relation to these pre 1998 enhancements at the liability at 31st March 2007 to be £96 million (2005/2006: £95 million), of which Torbay's share would be £11.256 million (2005/2006: £11.152 million).

30 Prior Period Adjustments

In the 2006/07 Statement of Accounts, the council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts
- credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item
- gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

In addition the introduction of the new Core Statements has led to figures being reported in a revised format.

Only these changes that have resulted in comparative figures for 2005/06 being restated on the Income & Expenditure Account compared with those published in the 2005/06 Statement of Accounts have been included in the table below.

	CRA 2005/06	Re analysis of Social Services	Removal of Capital Financing Charges	Re analysis to new I&E Format	Reallocate Gov't Grants Deferred Credits	Recognition of Gains/ Losses on Disposal of Fixed Assets	2005/06 Comparatives in Income & Expenditure Account
	£m	£m	£m	£m	£m	£m	£m
Cultural, Environmental and Planning Services	21.3	0	(1.0)	0	0	0	20.3
Education Services	73.9	0	(5.6)	0	(0.4)	0	67.9
Highways, Roads and Transport Services	7.9	0	(2.1)	(0.1)	(0.1)	0	5.6
Social Services	46.7	(46.7)	0	0	0	0	0
Adult Social Care	n/a	34.5	(0.3)	0	0	0	34.2
Childrens Social care	n/a	12.2	0	0	0	0	12.2
NDC	1.2	0	0	(0.2)	(0.2)	0	0.8
Impact on Net Cost of Services	155	0	(9.0)	(0.3)	(0.7)	0	145
Loss on Disposal of Fixed Assets	0	0	0	0	0	(0.8)	(0.8)
Trading	(0.1)	0	(0.1)	(0.1)	0	0	(0.3)
Asset Management Revenue Account	(5.6)	0	9.2	(4.3)	0.7	0	0
Interest Payable and Similar Charges	0	0	0	4.6	0	0	4.6
Reversal of Gain/loss on disposal	n/a	0	0	0	0	0.8	0.8
Investment Properties	(0.3)	0	(0.1)	0	0	0	(0.4)

31 Provisions

This heading reflects monies held where the Council has an obligation to which is likely to lead to a payment but the exact amount and timing of the payment is unknown.

	Balance as at 1 st April 2006	Additions	Withdrawals	Balance as at 31 st March 2007
	£ m	£ m	£ m	£ m
<u>Provisions</u>				
Leased Vehicle and Leased Bin Returned Condition	0.1	0	0	0.1
Insurance	0.6	0.6	(0.6)	0.6
Redundancy Provision	0.6	0	(0.6)	0
Landfill Allowance Trading Scheme	0.8	0.7	(0.8)	0.7
Other Provisions	0.1	0	0	0.1
TOTAL PROVISIONS	2.2	1.3	(2.0)	1.5

Description of Provisions held by the Council

Name of Provision

Description of Provision

Leased Vehicle Return Condition

Provision for vehicles under an operating lease to cover the potential cost of return. The timing and level of liability to the Council will depend on the actual mileage and general condition of a number of vehicles when returned.

Leased Bins Return Condition

Provision for bins under an operating lease to cover the potential cost of return. The liability to the Council will depend on the general condition of a large number of wheeled bins when returned.

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.

Name of Provision**Description of Provision**

Redundancy Provision

Provision to reflect the redundancy, pension payments and other employee related costs arising from decisions where a constructive obligation for these costs has been created. This provision was used in 2006/07.

Landfill Allowance Trading Scheme

Provision to reflect the liability to DEFRA incurred for usage of landfill allowances. This provision will be used in the next 12 months.

32 Publicity Account

The following Memorandum Publicity Account is that required by Section 5 of the Local Government Act 1986, as amended.

It is a memorandum account only, and the income and expenditure figures are included in the Revenue Accounts of the Services involved.

2005/06			2006/07	
£ m	£ m		£ m	£ m
	0.6	Recruitment advertising		0.3
		Publicity Advertising		
		Torbay Development Agency:-		
0.8		Marketing (including Riviera Guide)	0.8	
(0.4)		Less: advertisement income	(0.4)	
	0.4			0.4
	0.2	Other Publicity Advertising		0.1
	0.0	Other Advertising (includes statutory)		0.1
	<u>1.2</u>			<u>0.9</u>

33 Related Companies

33.1 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's latest accounts for the financial year ended 31st March 2007 shows a net profit of £7,000 (£7,000 2005/06) increasing its total net assets to £36,000 (£29,000 2005/06). Due to the size of the company under the Companies Act 1985 it is exempt from audit. Copies of the latest published accounts can be obtained from the Director of Finance at Torbay Council.

33.2 The PLUSS Organisation Ltd

On the 1 August 2005 The PLUSS Organisation Ltd was formed, this is company limited by guarantee with no share capital. Devon County Council, Plymouth City Council, Torbay Council and from July 2006 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 requires the Council to produce group accounts. Under the equity method for accounting for associates prescribed in FRS9 only the net assets need to be disclosed, these were considered to be immaterial. A summary of PLUSS accounts for the year 2006/07 is shown below:-

Torbay Council's 1/3 share 2005/06	The PLUSS Organisation Ltd	Torbay Council's 25% share 2006/07
Profit and Loss Account for the period ended 31 March 2007		
£m		£ m £m
3.83	Gross Turnover	20.70 5.18
(3.80)	Less Operating Costs	(20.90) (5.23)
0.03	Operating Profit/(Loss)	(0.20) (0.05)
	<i>Interest Receivable</i>	
0	- External Interest	0.10 0.03
0.23	- Interest related to FRS17 Retirement Benefits	1.20 0.3
	Less Interest Paid	
(0.16)	- Interest related to FRS 17 Retirement Benefits	(0.90) (0.23)
0.07	Net Interest	0.40 0.1
0.10	Profit before Taxation	0.20 0.05
(0.03)	Less Taxation	0 0
<u>0.07</u>	Profit after Taxation	<u>0.20</u> <u>0.05</u>
Balance Sheet as at 31st March 2007		
0.07	Fixed Assets	0.50 0.13
1.63	Current Assets	5.50 1.37
(1.23)	Less Current Liabilities	(4.40) (1.1)
0.47	Total Assets less Current Liabilities	1.60 0.40
(0.40)	Less Long Term Creditors	(1.10) (0.28)
0.13	Pension Assets	0.30 0.08
<u>0.20</u>	Net Assets including pension assets	<u>0.80</u> <u>0.20</u>

Torbay Council's 1/3 share	Profit and Loss Account for the period ended 31 March 2007 Continued	Torbay Council's 25% share	2006/07
	Capital and Reserves		
0.07	Profit and Loss Reserve	0.40	0.10
0.13	Pension Reserve	0.40	0.10
0.20	Members' Funds - non-equity	0.80	0.20

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 from July 2006 Somerset County Council, the Council has 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.
- The Council's stock as at 31/7/05 transferred to the new company but the value will be repaid over 2 years. The value outstanding as at 31/3/07 was £0.072 million (2005/06 £0.143 million).

PLUS has been admitted to the Devon County Pension Fund. The former Council staff are now employed by PLUS 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 £0.414 million.

The information is based on audited accounts for the year ending 31st March 2007.

Copies of the latest published accounts can be obtained from the Director of Finance at Torbay Council.

34 Related Party Transactions

The Council is required to disclose material transactions with related parties, bodies or individuals, that have a potential to control or influence the Council or to be controlled or influenced by the Council. The Council potentially has transactions with Central Government, Members of the Council, Officers, Other Public Bodies including Regional Development Agency, other Councils, Riviera Centre, Riviera Housing Trust, NHS Trusts, Torbay Care Trust, Housing Associations and Pension Funds.

No material transactions with related parties during the year have been identified other than those disclosed below or elsewhere in these statements, e.g. government grants etc.

During the year transactions with related parties arose as follows:

Members: A Members Record of Interests is maintained and is available for public inspection. In addition for 2006/07.

- Councillor Richards declared a Street Traders Licence
- Mr N Hutchinson, an independent member declared that his guest house had a contract to let out 4 rooms for the exclusive use of Torbay Council. The contract expired on 31st March 2007. Also bed and breakfast lettings were made to Torbay Council on an occasional basis during the year.

The Council maintains a Members Register of Gifts & Hospitality. During 2006/07 Members received hospitality (over the value of £25) from the following organisations/individuals:-

Preston Rotary Club
The Coffee Company
Matthews Productions
Babbacombe Theatre
Chartered Institute of Waste Management
The Southern Football League
Mirch Masala
Gleneagles Hotel, Torquay
Paignton Zoo
Imperial Hotel

Officers: The Council maintains a Register of Gifts & Hospitality. During 2006/07 officers received hospitality (over the value of £25) in the course of their employment from the following organisations/individuals:-

Istead Consultancy

Mr and Mrs Naisey

Herald Express

Glendinnings Surfacing Ltd

National Car Parks (NCP)

South Devon College

South West Highways

Parsons Brinckerhoff

Chartered Institute of Waste Management

Valbonnes Nightclub

Public Bodies: The Council has entered into a number of partnership and joint working arrangements with other Public Bodies both within the NHS and Local Government.

Trusts: The Council paid a management fee of £151,800 to the Torbay Coast and Countryside Trust in 2006/07. Although the Council has representation on the Trustee Board it is not felt to have a significant influence over Trust policies.

The Council has agreed to act as a guarantor to the Torbay Coast and Countryside Trust for £710,000. This is relating to a bank loan of £200,000 and an overdraft facility of £510,000, that is in respect of capital work and initial trading being undertaken at Occombe Farm.

The Council contributed £558,000 to Riviera Centre International Limited, a not for profit company. The Council does not hold assets or liabilities in the Company.

Assisted Organisations: The Council provided £130,000 to the Torbay Citizen's Advice Bureau. The Council does not have any influence over policies.

Precepts The total cost of these services is disclosed within the Income and Expenditure Account. Within that total the precepts and levies paid in 2006/07 are as follows:

	£,000
Environment Agency	37
Devon Sea Fisheries	46

Government Grants: The Council receives government grants to support the provision of services within its net budget. These are within the gross income within the Income and Expenditure Account and within its Cash Flow Statement. A summary of revenue grants by Service is shown below.

2005/06	Service Classification	2006/07
£ m		£ m
11.5	Central Services	11.6
3.1	Culture, Environment and Planning	2.8
20.3	Education	87.2
0.5	Highways, Roads and Transport	0.1
45.0	Housing Services	47.3
9.6	Social Services	6.8
0	Other	2.0
<u>90.0</u>		<u>157.8</u>

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. Although the Council remains ultimately responsible for Adult Social Care, staff working in this service formally employed by the Council are now employed by Torbay Care Trust. In 2006/07 the Council has provided £35.9 million of funding including specific government grants.

PLUSS: The supported employment service, formally Torbay Industrial Services, was transferred in August 2005 to a Local Authority Controlled company (PLUSS) in which the Council has an equal share with Devon County Council, Plymouth City Council and from July 2006 Somerset County Council. In 2006/07 the Council has provided £1.6 m of funding and purchases of goods and services.

Outstanding Balances: Any amounts due to or from related parties as at 31st March 2007 are within the Council's balance sheet. The only balances with related parties over £100,000 is a net £1.2 million (2005/06 £0.6 million) due to Torbay Care Trust and £0.9 million (2005/06 £1.1 million) due from PLUSS.

35 Reserves and Balances

35.1 Summary of Movements in Reserves

The table below shows a summary of the Council's reserves that comprise its Net Worth. Details of each reserve are listed below the table or are referenced to other notes in the accounts.

Reserve	Balance as at 1 st April 2006 £m	Net Movement in Year £m	Balance as at 31 st March 2007 £m	Further Details
Fixed Asset	141.3	11.4	152.7	Note 35.2
Restatement Account				
Capital Financing Account	19.3	2.0	21.3	Note 35.3
Usable Capital Receipts	3.5	(1.3)	2.2	Note 35.4
Pension Reserve	(67.3)	(1.4)	(68.7)	Note 29.1
General Fund	2.7	0.1	2.8	Statement of Movement on General Fund Balance
School Balances	2.7	0.7	3.4	Note 35.5
Earmarked Reserves	14.9	4.0	18.9	Note 35.6

Reserve	Balance as at 1 st April 2006 £m	Net Movement in Year £m	Balance as at 31st March 2007 £m	Further Details
Trading Reserves	0.6	(0.1)	0.5	
Collection Fund	0.6	(0.3)	0.3	Collection Fund Statement
TOTAL NET WORTH	118.3	15.1	133.4	

Reserves relating to schools' share of Standards Funds grants have now been classified as school balances instead of part of a general education related earmarked reserve.

35.2 Fixed Asset Restatement Account

The balance on the Fixed Asset Restatement Account in relation to fixed assets mainly represents the difference between (re) valuations and the original capital expenditure on those assets.

2005/06 £ m		2006/07 £ m
116.7	Opening balance as at 1st April	141.3
25.0	Gains/Losses on revaluation of fixed assets	11.8
0.0	Other acquisitions	0.2
(0.4)	Value of assets sold or disposed of	(0.6)
141.3	Balance as at 31st March	152.7

35.3 Capital Financing Account

The Capital Financing 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.

2005/06		2006/07
£m		£m
18.9	Opening Balance as at 1st April	19.3
0.1	Repayment of Brixham Harbour Covenant	0.0
	Direct financing of Capital Investment in Year -	
2.3	Capital receipts	2.2
1.1	Revenue	1.0
0.4	Funding of Capitalised Element of PFI Payment (Deferred Asset)	0.4
1.0	Repayment of Debt Transferred from Devon County Council	0.9
23.8		23.8
	Less :	
(4.5)	Excess of depreciation & other charges over Minimum Revenue Provision	(2.5)
19.3	Balance as at 31st March	21.3

35.4 Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve holds capital receipts from the sale of assets which have been received and have not yet been used to finance capital expenditure. The balance on the Reserve is held to fund future year's expenditure in the approved Capital Plan Budget.

2005/06		2006/07
£ m		£ m
4.2	Opening balance as at 1st April	3.5
1.6	Receipts from the Sale of Assets in the Year (note 1)	0.9
(2.3)	Transferred to the Capital Financing Account to fund investment in the year	(2.2)
<u>3.5</u>	Balance as at 31st March	<u>2.2</u>

Note 1: For detail of the capital receipts in year see note 20 on Gains/losses on disposal of assets.

35.5 SCHOOLS BALANCES

Under the Torbay "Scheme for Financing Schools", schools are permitted to carry forward surplus balances subject to meeting the conditions within the scheme. The conditions primarily relate to the surplus being assigned for a specific purpose and the balance subject to a percentage of an individual school budget. (5% for secondary schools and 8% for primary schools). These balances are committed to schools related expenditure.

2005/06		2006/07
£ m		£ m
3.2	Opening balance as at 1st April	2.7
(0.5)	Net Additions/(withdrawals in year)	0.7
<u>2.7</u>	Balance as at 31st March	<u>3.4</u>

35.6 Earmarked Reserves

Revenue reserves result from events that have allowed money to be set aside from surpluses, or decisions causing anticipated expenditure to have been postponed or cancelled. Reserves of this nature are available and can be spent or earmarked at the discretion of the Council.

The reserves held by the Council are:-

<u>Name of Reserve</u>	<u>Description of Reserve</u>
Equipment Fund	To facilitate renewal of equipment within services where the replacement is at irregular periods.
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.
Early Retirement Reserve	To enable the Council to meet new childrens' redundancy-related liabilities as they fall due. Built up from annual budgets for new redundancies.
Financial Strategy	To fund the implementation of high level reviews and other corporate initiatives.
Planning	To provide for costs of Local Plan Inquiry held every 4/5 years.
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.
IT Equipment	To provide funds for priority driven replacements of IT equipment.
Car Parks Machine	To replace Pay and Display machines at the end of their useful life.
Vehicles and Plant	To finance the purchase of vehicles and plant when updating the authority's fleet.
Harbours	Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users.
Capital Funding	To reserve funding for items in the approved Capital Plan Budget.
TDA Capital Reserve	To support funding of TDA Capital projects
Cemeteries And Crematoria	To provide a reserve into which annual revenue contributions are made to fund future cremator replacement

<u>Name of Reserve</u>	<u>Description of Reserve</u>
Other Specific Reserves	Includes: Council Elections, Art Objects Purchase Fund, Replacement Software Reserve, Claylands Reserve, Hele Signal Maintenance Reserve, Disposal Costs, Pearl Assurance House Repair
Carry Forwards	Service Carry Forwards - agreed at Council 28 th June 2007
South West Water Agency	This reserve is held to meet any employee and other liabilities arising from the former agency work with South West Water.
Local Authority Business Growth Incentive Reserve	Reserve for the business incentive grant pending the development of plans for the effective use of this grant.
Landfill Allowances Trading Scheme Reserve	Reserve balance arising from the surplus/deficit on the valuation of the landfill allowances compared to actual usage of landfill. This will be used to help fund any future deficits on Allowances.
Waste Disposal Strategy Reserve	Reflects the reclassification of part of the equipment fund as a specific reserve for Waste Disposal Initiatives.
Decriminalised Parking Trading Reserve	Reflects the surplus/deficit on the Council's Decriminalised Parking operations. (also known as on street car parking).
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.
TPSL Reserve (Housing)	To set aside amounts for potential costs of returning properties to landlords under the Private Sector Leasing scheme for homeless people.
Supporting People Re provision Reserve	To set aside monies to help in the commissioning of services for the re provision of the supporting people function
TCT 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.

<u>Name of Reserve</u>	<u>Description of Reserve</u>
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

Analysis of Reserve Movements					
	Balance as at 1 st April 2006 £ m	Transfers between Reserves 2006 £ m	Additions to the Reserve £ m	Withdrawals from the Reserve £ m	Balance as at 31st March 2007 £ m
Earmarked Reserves					
Other Specific Reserves	0.4	0	0	(0.1)	0.3
Equipment Reserves	0.3	0	0.1	0	0.4
PFI Sinking Fund	3.6	0	0.5	0	4.1
Early Retirement Reserve	0.3	0	0.1	(0.1)	0.3
Financial Strategy Reserve	0.3	0.5	0.2	(0.1)	0.9
Planning Reserve	0.2	0	0.1	0	0.3
LGR Repayment Reserve	0.1	0.2	0	0	0.3
IT Equipment Reserve	0.3	0	0.2	(0.1)	0.4
Car Park Machine Reserve	0.1	0	0	0	0.1
Vehicles and Plant Reserve	0.3	0	0	(0.1)	0.2
Harbour's Reserve	1.3	0	0.3	(0.4)	1.2

	Balance as at 1 st April £ m	Transfers between Reserves £ m	Additions to the £ m	Withdrawals from the £ m	Balance as at 31 st March £ m
Earmarked Reserves					
Capital Funding Reserve	0.9	0	0.1	(0.1)	0.9
Cemeteries and Crematoria Reserve	0.6	0	0.1	0	0.7
Carry Forwards (note 1)	1.5	0	2.5	(1.2)	2.8
Waste Strategy Reserve	0.2	0	0	(0.1)	0.1
Local Authority Trading Scheme	0.1	0	0	0	0.1
Decriminalised Parking Reserve	0	0	0.4	(0.4)	0
Unsupported Borrowing Reserve	0.2	0	0.2	0	0.4
TDA Agency Capital Scheme Reserve	0.4	(0.2)	0	0	0.2
South West Water Agency	0.1	0	0	0	0.1
LA Business Growth Incentive	0	0.2	0.3	0	0.5
TPSL Reserve (Housing)	0	0	0.3	0	0.3
Supporting People Reserve	0	0	0.2	0	0.2
TCT Pension Reserve	0	0	0.2	0	0.2
Insurance Reserves	3.7	(0.7)	1.3	(0.4)	3.9
Total Earmarked Reserves	14.9	0	7.1	(3.1)	18.9
Note : (1) £0.3m of earmarked reserve reclassified as schools balances					

36 Section 31 Health Act (Pooled Budgets)

Under Section 31 of the Health Act, Councils are able to work with NHS bodies to assist in the delivery of services. In 2006/07 the only Pooled budget arrangement with a turnover greater than £200,000 was the Joint Equipment Store in partnership with Torbay Care Trust (formally Torbay Primary Care Trust). In this pooled budget arrangement, established in April 2004, the Council is the lead body in the operation of an equipment store for the purchase and distribution of items to support social care.

2005/06		2006/07
£m		£m
	Joint Equipment Store	
0.9	Gross Expenditure	1.1
(0.4)	Torbay Care Trust Funding	(0.5)
(0.3)	Torbay Council Funding (Revenue)	(0.3)
(0.2)	Grant Funding (Torbay Council) and Sundry Income	(0.3)
0	Net Expenditure	0

37 Section 137 Expenditure

Section 137 of the Local Government Act 1972 empowers the Council, subject to various conditions and limits, to incur expenditure which in its opinion is in the interest of, and will bring direct benefit to, the area or any part of it, or all or some of its inhabitants. The Local Government Act 2000 granted new powers to authorities in England and Wales to promote 'well being' in their area. As a consequence the majority of the provisions of Section 137 were replaced with effect from October 2000.

Local Authorities are still required to disclose any expenditure under Section 137. However for Torbay Council there was no expenditure on Section 137.

38 Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows Torbay Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the Council is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- The General Fund Balance shows whether Torbay Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The following table reconciles the difference between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/06		2006/07	
£m	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	£m	£m
(0.5)	Amortisation of intangible fixed assets	(0.5)	
(4.0)	Depreciation and impairment of fixed assets	(4.4)	
0.7	Government Grants Deferred amortisation	1.0	
(0.1)	PFI Deferred Benefit	(0.1)	
(3.0)	Write downs of deferred charges to be financed from capital resources (England and Wales)	(1.4)	
0.8	Gains or losses on disposal of fixed assets	0.4	
(6.9)	Net charges made for retirement benefits in accordance with FRS 17	(8.5)	
(13.0)			(13.5)

2005/06	2006/07	2006/07
£m	£m	£m
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
2.4	Minimum revenue provision for capital financing	2.9
1.5	Capital expenditure charged in-year to the General Fund Balance	1.4
1.0	Repayment of LGR transferred Debt – Principal to DCC	1.0
0.1	Repayment of Covenant	0.0
8.0	Employer's contributions payable to the Devon County Council Pension Fund and retirement benefits payable direct to pensioners	7.2
13.0		12.5
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
1.1	Net transfer (to) or from earmarked reserves	4.6
1.1		4.6
1.1	Net additional amount required to be charged to the General Fund balance for the year	3.6

39 Statement of Net Assets Employed in the Current Year

Restated Balance as at 31 st March 2006 £ m		Balance as at 31 st March 2007 £ m
103.8	General Fund	116.3
(1.4)	Operational Services	(2.4)
15.9	Harbours	19.5
<hr/> 118.3		<hr/> 133.4

40 Statement of Total Recognised Gains and Losses

This Statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth.

The detail supporting each of the disclosed movements to this account are disclosed elsewhere in the accounts. The relevant notes are as follows:

Surplus arising on revaluation of fixed assets – see note 35.2 to Reserves on the Fixed Asset Restatement Account

Actuarial (gains)/losses on pension fund assets and liabilities – see note 29.1 to FRS17 Pensions

Collection Fund balance attributable to Torbay – see Collection Fund Statement

41 Stock and Work in Progress

31 st March 2006 £ m		31 st March 2007 £ m
0.1	General Fund:	0
0.2	Operational Services	0.3
<u>0.3</u>		<u>0.3</u>

42 Trading Operations

The Council is disclosing six trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations.

Details of units with a turnover greater than £0.2 million in 2006/07 are as follows:

Trading Operations 2006/07				
2005/06 £ m	Operation	Description		2006/07 £ m
13.8	Operational Services	The Council operates a Trading Operation for a number of its services.	Turnover	14.1
(13.7)			Expenditure	(14.1)
<u>0.1</u>			Surplus/(Deficit)	0
1.6	Harbours' Accounts	The Council operates a ring fenced account for its three harbours.	Turnover	1.7
(1.5)			Expenditure	(1.6)
<u>0.1</u>			Surplus/(Deficit)	0.1

£m				£m
4.4	Car Parking	The Council operates off street and on street car parking.	Turnover	5.1
(3.2)			Expenditure	(3.9)
<u>1.2</u>			Surplus/(Deficit)	1.2
1.3	Printing Services	The Council operates an in house Printing service which operates on a trading basis	Turnover	1.1
(1.3)			Expenditure	(1.1)
<u>0</u>			Surplus/(Deficit)	0
0.3	Industrial Units	The Council maintains a number of sites where land/office space is Rented to business to generate Employment within Torbay	Turnover	0.3
(0.1)			Expenditure	(0.1)
<u>0.2</u>			Surplus/(Deficit)	0.2
0.7	Land Charges	The Council has a duty to maintain the register of local land charges and respond to searches on behalf of prospective purchasers.	Turnover	0.7
(0.1)			Expenditure	(0.3)
<u>0.6</u>			Surplus/(Deficit)	0.4

43 Transport Act 2000

Under the Transport Act 2000 Torbay Council is required to produce a Local Transport Plan (LTP). The Capital expenditure associated with this plan is shown within the capital expenditure notes to these accounts. The council in relation to its LTP is also required to submit Annual Progress Report (APR) to Central Government.

Under this Act local authorities are obliged to have a bus concessionary fare scheme in place. Within the County of Devon there was a unified partnership approach between all councils allowing half price travel, principally for people over the age of 60 and the disabled, throughout Devon (not just the Council's own area). The scheme is known as the Devonwide Scheme and is operated by Devon County Council. In 2006/2007, the Government expanded the scheme to make concessionary travel free to all people over the age of 60 and the disabled which has led to a significant increase in the costs of the Scheme. Torbay, as with most other authorities in Devon, has maintained its partnership arrangement in 2006/07 with the Devonwide Scheme.

In 2006/07 Torbay council contributed £1.9 million (2005/06 £0.3 million) to the estimated running costs for the Devonwide Scheme.

2005/06 £m		2006/07 £m
Total Cost of Devonwide Scheme		
Expenditure:-		
0.2	Devon County Council Management Costs	0.3
1.5	Operator's Costs	8.1
<u>1.7</u>		<u>8.4</u>
Income:-		
(1.7)	Partnership Authority Contributions	(8.4)
<u>(1.7)</u>		<u>(8.4)</u>
<u>0</u>	Net (Surplus)	<u>0</u>

Surpluses are refunded back to partnership authorities pro rata to their contributions to the scheme.

Note: From 2007/08 the Council has withdrawn from the Devonwide scheme and is now running its own Torbay scheme in partnership with bus operators.

44 Trust Funds

The Council acts as trustee for the funds listed below. In accordance with LAAP 58 these funds have not been consolidated in the accounts of the Council and a summary of income and expenditure in year is as shown in the table below.

TITLE OF TRUST FUND	Balance 31st March 2006 £000s	Income in Year £000s	Spend in Year £000s	Balance 31st March 2007 £000s
Sports Events To provide grants to local sports men and women.	17	1	(1)	17
Stoney Park Allotment To maintain and repair the Stoney Park Allotment	8	1	0	9
Leanora Carlow: To provide contributions to Handicapped Children in Torbay	14	1	(1)	14
Thomas W Gleiman: Established to support the poor in Torbay	1	0	0	1
Mayoral (civic) Charity Account: To receive contributions to the Chairman of Torbay for distribution to local charities.	5	6	0	11
Education Bequests to specific schools within Torbay	16	1	0	17

All monies, with the exception of the mayoral charity account are held within the Council's bank account. In 2007/08 following the creation of Brixham Town Council the trusteeship of Stoney Park Allotments could transfer.

45 Undischarged Obligations – PFI Initiative

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 contract became effective on 10th May 2000. 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 actual level of payments depends upon TSS performance in providing accommodation and services. The actual payment to TSS in 2006/07 was £1.8 million (£1.8m 2005/06). The Council is committed to a maximum payment of £2.0 million in 2007/08 depending on performance.

COLLECTION FUND SUMMARY ACCOUNT 2006/2007

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.

2005/06			2006/07	
£ m	£ m		£ m	£ m
		Income		
(48.4)		Council Tax	(50.9)	
(10.3)		Transfers from General Fund - Council Tax Benefits	(11.1)	
	(58.7)			(62.0)
	(26.6)	Income in respect of Non-Domestic Rates		(28.3)
	<u>(85.3)</u>	Total Income		<u>(90.3)</u>
		Expenditure		
		<i>Precepts and Demands:-</i>		
5.7		Devon & Cornwall Police Authority	6.0	
2.8		Devon Fire Authority	2.9	
49.6	58.1	Torbay Council's own Demand	52.0	60.9
	0.5	<i>Distribution of previous years estimated collection fund surplus. Note 46.4.</i>		1.0
		<i>National Non-domestic Rates (NNDR):-</i>		
26.2		Payments to NNDR Pool	28.0	
0.2	26.4	Cost of Collection Allowance	0.2	28.2
		<i>Bad and Doubtful Debts/Appeals:-</i>		
		<u>Council tax</u>		
0.3		Write Offs	0.4	
0.1	0.4	Provision for uncollectable amounts	0.0	0.4

2005/06			2006/07	
£ m	£ m		£ m	£ m
		<u>NNDR</u>		
0.3		Write Offs	0.1	
<u>(0.1)</u>	0.2	Provision for uncollectable amounts	<u>0.1</u>	0.2
	<u>85.6</u>	Total Expenditure		<u>90.7</u>
	<u>0.3</u>	Deficit for year		<u>0.4</u>
Movement of Fund Balance				
(1.0)		Balance brought forward as at 1 st April		(0.7)
<u>0.3</u>		Deficit for the year		<u>0.4</u>
<u>(0.7)</u>		Balance carried forward as at 31 st March		(0.3)
(0.1)		<i>Balance attributable to major precepting bodies.</i>		0
		<i>Note 46.5.</i>		
(0.6)		<i>Balance attributable to Torbay Council.</i>		(0.3)
		<i>Note 46.5.</i>		

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.

46 Council Tax

46.1 Council Tax Base 2006/07

For Council tax purposes the number of domestic properties in each band converted to a Band D equivalent for 2006/07 was as follows:

Valuation Band	2006/07			
	Ratio to Band D	No of Dwellings In valuation list	No of Dwellings Band D Equivalent	Average Council Tax Per Dwelling £
A	6/9	12,191	6,525	847.19
B	7/9	16,341	11,043	988.38
C	8/9	15,664	12,477	1129.58
D	1	9,396	8,619	1270.78
E	11/9	4,907	5,586	1553.18
F	13/9	2,264	3,042	1835.57
G	15/9	1,193	1,775	2117.97
H	2	117	156	2541.56
TOTAL		62,073	49,223	
Less Allowance for Non Collection @ 2.5%			1,231	
TAX BASE 2006/07			47,992	

The number of dwellings Band D equivalent for 2006/07 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.

46.2 Council Tax Income 2006/07

Precepts and Demands:

The following Authorities made a demand on the Collection Fund in 2006/07.

	£ m
Torbay Council	52.0
Devon and Cornwall Police Authority	6.0
Devon Fire Authority	2.9
Total Demands on Collection Fund 2006/2007	60.9
Divided by Council Tax Base	47,992
Band D Council Tax	£1,270.78

The Income credited to the Collection Fund in 2006/07 can be analysed as follows.

	£ m
Gross Council Tax Payable for Year	71.1
Reduced Assessments (discounts)	(9.1)
Actual Income from Council tax	62.0
Less Council Tax Benefit	(11.1)
Total Council tax Income 2006/07	50.9

The difference of £1.1 million between the actual Council Tax income (£62.0m) and the estimated income (£60.9m) is due to changes during the year in the Council Tax Base. These changes include the number of eligible properties, discounts and the actual tax collection rate.

46.3 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 2007 was £77.4 m (£77.6m 2005/2006).

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 2006/07 was 42.6 pence per pound of rateable value and the non domestic rating multiplier was 43.3 pence per pound.

46.4 Distribution of previous years' estimated collection fund surplus

2005/06		2006/2007
£000's		£000's
406	Torbay Council	840
47	Devon and Cornwall Police Authority	97
23	Devon Fire Authority	47
54	Distribution of Community Charge Residue	0
530	Total	984

46.5 Accounting for the Collection Fund balance

The opening balance for the Collection Fund for 2006/07 was £0.7m surplus. The balance as 31 March 2007 was £0.3 m 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 2006/07 Statement of Accounts as follows.

Major Precepting Bodies:-	£ 000's
Torbay Council	256
Devon and Cornwall Police Authority	30
Devon and Somerset Fire and Rescue Authority	14

In the Balance Sheet as at 31 March 2007 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 reserve.

In the Statement of Total Recognised Gains and Losses, the Council has disclosed the attributable movement on the Collection Fund balance.

Statement of Accounting Concepts and Accounting Policies

General Policies and Concepts

The general policies and concepts adopted in compiling the accounts are those recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA) in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (SORP).

These concepts and policies are important in that compliance by the Council in all material aspects with these will help to achieve the requirement to “present fairly” the financial statements of the Council.

Fundamental Accounting Concepts

FRS18 Accounting Policies sets out the fundamental accounting principles to be followed in selecting accounting policies. These are outlined as follows:

Qualitative Characteristics of Financial Information:

- Relevance

The objective of these financial statements is to provide information about a council's financial performance and position that is useful for assessing the stewardship of public funds and for making economic decisions.

- Reliability

Financial information will be reliable if:

- it can be depended upon if it reflects the substance of the transactions and other events that have taken place
- it is free from deliberate or systematic bias
- it is free from material error
- it is complete within the bounds of materiality

- it has been prudently prepared (under conditions of uncertainty)

- Comparability

Information in financial statements increases its usefulness if it can be compared with similar information about the body for some other period of time or another body. This will depend on consistency and adequacy of disclosures.

- Understandability

All reasonable efforts should be taken in the preparation of financial statements to ensure they are as easy to understand as possible.

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 authority accounting that, where specific legislative requirements and accounting principles conflict, legislative requirements shall apply.

Accounting Policies

Accounting Policies are defined in FRS18 as those 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:

Reserves and Provisions

Reserves:

Revenue reserves result from events that have allowed money to be set aside from surpluses, or decisions causing anticipated expenditure to have been postponed or cancelled. Reserves of this nature can be spent or earmarked at the discretion of the Council.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent usable resources for the council - these reserves are explained in the relevant policies.

Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance 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.

Provisions:

In accordance with FRS12 'Provisions, Contingent Liabilities and Contingent Assets', the Council sets aside provisions where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing or amount of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Tangible & Intangible Fixed Assets

(i) Categorisation

Fixed Assets are categorised into classes:

- **Intangible Assets:**
Non-financial assets which do not have physical substance but are identified and controlled by the Council through legal rights e.g. IT software, and which bring benefits to the Council for more than one year

- **Tangible Fixed Assets:**
 - **Operational Assets**
Assets held and occupied for the direct delivery of services or administrative purposes on a continuing basis, including infrastructure and community assets.
 - **Non- operational Assets**
Assets held but not directly occupied or used in the delivery of services, including assets held primarily for investment purposes, surplus assets awaiting disposal and land and buildings in the course of development but not yet completed (assets under construction)

(ii) Recognition

Expenditure on the acquisition, creation or enhancement of fixed assets (i.e. which adds to, and not merely maintains, the performance of the asset) is capitalised on an accruals basis and classified as either a Tangible Fixed Asset or an Intangible Asset on the Balance Sheet, provided that it yields benefits to the Council and the services it provides are for a period of more than one year. Expenditure that secures but does not extend the performance of the asset (e.g. repairs & maintenance) is charged to the Revenue Account in the year it is incurred.

De-minimis -

- A general de-minimis limit of £25,000 is applied to recognition of expenditure on Tangible Fixed Assets. 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.
- A general de-minimis limit of £50,000 is applied to recognition of Intangible Assets with exceptions as above.

(iii) Measurement

Assets are initially measured at cost, comprising all the expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then valued in the Balance Sheet using the following bases:

- Intangible assets - purchase cost, net of amortisation to revenue over the economic life of the investment.
- Operational land & buildings, 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 (EUUV); for specialised operational assets, net current replacement cost is calculated on the basis of Depreciated Replacement Cost (DRC).
- Infrastructure – depreciated historical cost. 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 - historical cost.
- Investment property and surplus assets - lower of net current replacement cost or net realisable value. Net current replacement cost is calculated on the basis of Open Market Value (OMV).
- 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 professional valuer pending the issue of a revaluation certificate upon completion of the works. For assets valued at historical cost (infrastructure and community assets) costs are disclosed under operational fixed assets as they are incurred.

(iv) Revaluation (assets held at current cost)

All land and building assets are regularly revalued under a 5-year rolling programme. 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 Sam Partridge A.R.I.C.S. who is the Estates Manager within the Financial Services of Torbay Council.

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.

On disposal, if there is a substantial difference (normally in excess of £10,000) between the carrying value of the asset and the sale proceeds, the asset is revalued to reflect the current value.

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 Fixed Asset Restatement Account.

(v) Depreciation

Depreciation is provided for on all Tangible fixed assets which are either Operational or Surplus and which have a determinable finite life. Depreciation is not normally provided for freehold land, community assets, Non-Operational investment properties or assets under construction. The Value of accumulated depreciation on Fixed Assets is disclosed in Note 19.

Provision for depreciation on buildings and other structures is made on a straight-line basis over the remaining life of the asset 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.

Vehicles, plant & equipment are depreciated on a straight-line basis over periods between 3 to 10 years depending on the nature of the asset.

Infrastructure is depreciated on a straight-line basis generally over 40 years.

Where grants or external contributions are received to fund the acquisition of Fixed Assets, the amounts are first credited to the Capital Grants and Contributions Unapplied Accounts on an accrual basis and then transferred to Capital Grants and Contributions Deferred Accounts when applied to finance capital expenditure. Annual sums are written down from the Capital Grants and Contributions Deferred Accounts to the relevant service revenue account to offset depreciation charges in line with the depreciation policy applicable to each asset. Where a grant cannot be allocated to a specific service asset the grant is written down to Non Distributed costs.

(vi) Amortisation of Intangible Assets.

Intangible assets are amortised to the revenue account over their useful life (between 3 -10 years depending on the asset), in accordance with FRS10, reflecting their consumption of benefit to the service.

(vii) Impairment

Assets have been reviewed for impairment in accordance with the requirement of the SORP and any material effects reflected in the Balance Sheet valuation of Fixed Assets.

Where an impairment loss is caused by a clear consumption of economic benefits (e.g. physical damage or deterioration in the quality of the service provided by the asset) the loss is charged to the service revenue account. For other instances of impairment the loss is written off against the Fixed Asset Restatement Account.

(viii) Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are charged annually with the following amounts to reflect the real cost of holding fixed assets –

- depreciation charges on Operational Assets used in the provision of services,
- impairment losses attributable to the consumption of economic benefits on Tangible Fixed Assets
- amortisation of Intangible Fixed Assets attributable to the service

The impact of these charges to the Income and Expenditure Account are reversed out in the Statement of Movement on the General Fund Balance (by way of a charge to the Capital Financing Account) as the Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. The actual cost the taxpayer must bear in relation to the provision of assets is the payment of real interest incurred on external debt, and a minimum revenue provision towards the repayment of debt which must be set-aside from the Revenue account under current legislation (Minimum Revenue Provision – see below).

The significant change for 2006/07, and restated 2005/06, capital charges is the removal of the SORP requirement to charge a notional interest charge in addition to depreciation. Services which operate on a ring fenced basis, such as Operational services and the Harbours accounts, will continue to 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 management accounts to recover the cost of the borrowing over an appropriate period on an equalised 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 Best Value presentation of the 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.

(ix) Disposal and gains or losses on disposal

Upon disposal the net carrying value of the asset disposed of is written off against the Fixed Asset Restatement Account.

Any gain or loss on disposal is shown as a surplus/deficit on the Income and Expenditure Account and reversed through the Statement of Movement on the General Fund Balance to clear the impact of this (notional) entry. The net gain or loss is calculated by comparing the sale proceeds (i.e. the capital receipt) net of disposal costs and any adjustment arising from the amortisation of government grants, with the current value (i.e. the carrying value in the Balance Sheet). A de-minimis of £10,000 applies to the revaluation of individual assets at the date of disposal.

The Council also receives 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.

All Capital receipts are ultimately credited to the Usable Capital Receipts Reserve (via the entries through the Income & Expenditure Account) and can only be used to finance capital expenditure or as voluntary provision for repayment of debt. Unspent receipts earn interest for the Revenue budget until required. Receipts below the de-minimis level of £10,000 specified by the Capital Finance Regulations 2003 are not recognised as capital receipts and are retained in the Revenue Account.

(x) Deferred Charges

Deferred charges are items of a capital nature, which do not result in the creation of a fixed asset (e.g. payments to third parties such as Private Sector Renovation Grants). Charges incurred in the year are written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to fund the cost of deferred charges from capital resources or borrowing, a transfer to the Capital Financing Account reverses the effect on the Income & Expenditure Account through the Statement of Movement on the General Fund Balance so there is no effect on Council Tax. Capital Grants that relate to Deferred Charges written off in the year are credited to the service revenue account and treated as revenue grants.

(xi) Foundation Schools

The assets of Foundation schools remain with the Governing Bodies which are exempt charities. However these assets can only be used as schools and the value of Foundation schools is included in the Balance Sheet value of the Council's Fixed Assets. The net value of the 6 Foundation Schools (excluding the PFI school where the building asset rests with the contractor) included in the Fixed Assets on the Balance Sheet is £49.6 million.

(xii) Voluntary Aided and Voluntary Controlled Schools

The assets of Voluntary Aided and Voluntary Controlled schools are owned and largely funded by charitable foundations (usually the Diocesan Board). Following a review of the risks and rewards associated with these schools the value of these assets is not included in the balance sheet value of the Council's fixed assets.

Interest

Interest payable on external borrowings and interest income is accrued and accounted for in the accounts of the period to which it relates. This accounting policy is also applied to the calculation of the interest due on the Council's long term debt with Barclays (LOBO loan). See also Note 26.2.

Revenue Provision (Debt Redemption)

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 4% of the Council's underlying need to borrow represented by the Capital Financing Requirement, subject to all reductions allowed under the Regulations.

Within the Statement of Movement of General Fund Balance the depreciation, impairment losses and amortisation charged in the Service accounts are reversed and replaced by the revenue provision for the repayment of debt by way of an adjusting transaction with the Capital Financing Account.

Contributions from services who have undertaken capital projects 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.

Repurchase of Borrowing

Gains (Discounts) or losses (Premiums) arising from repurchase or early settlement of borrowing should be recognised in the period during which the transaction was made. Where however the repurchase of borrowing was coupled with a refinancing or restructuring with substantially the same overall economic effect when viewed as a whole, gains or losses are recognised, if material, over the life of the replacement borrowing. The Council has in 2006/07 has recognised net discounts of £0.3 million to 2006/07 resulting from a number of debt rescheduling opportunities.

Operating Leases

The Council's Operating Leases relate mainly to vehicles and are charged direct to revenue or to holding accounts. In addition the Council leases accommodation and also acts as a lessor in 'renting' land and property.

Long Term Contracts (PFI)

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. A Unitary Charge is paid for all the services received and this is recorded in the Council's Income and Expenditure Account.

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. Following identification of the amount applicable to some services, the remaining elements of the Unitary Charge includes other services which are not separable under the terms of the contract and therefore FRS 5 applies. An analysis of the benefits and risks associated with the properties indicated that upon commencement of the headleases (following final completion of the construction phases in August 2002) the properties are not recognised on the Council's Balance Sheet as Fixed Assets. Deferred assets (prepayment) representing the expected fair value of the residual assets remaining at the end of the contract period (year 2027) are being built up in the Council's Balance Sheet over time.

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.

Debtors and Creditors

The Council operates its revenue accounts on an income and expenditure basis. This means that all sums, which are due to be remitted to the Council, are recorded in the accounts whether or not the cash has actually been received or paid in the year. This will include customer and client receipts, employee costs and supplies and services. 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, to meet earlier closure requirements 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.

The Council makes a provision for the non payment of debt on 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.

For 2006/07 the Council now accounts for its core audit fee on a relevant year basis, irrespective of when the work was completed by its external auditors.

Developers' Contributions

Contributions from landowners/developers payable under planning agreements under Sec 106 of the Town & Country Planning Act 1990 are credited to the Unapplied Capital Contributions Account or to the appropriate service revenue account depending upon the expenditure that is to be met from the contribution (Capital or Revenue).

As capital contributions are applied to finance capital expenditure, in accordance with the agreements, they are transferred to the Capital Contributions Deferred Account and released to the Income and Expenditure Account in line with depreciation of the asset funded.

Revenue contributions unspent at year end are held as Receipts in Advance until required.

Where the agreement provides for contributions to be returned to the developer if works are not carried out within a specified period, receipts are treated as a creditor in the Balance Sheet until the Council is in a position to satisfy the conditions and recognise the contribution as its own.

Government Grants (Revenue)

Revenue Grants, including the Dedicated Schools Grant, are matched with the expenditure to which they relate. The Local Authority Business Growth Incentive Grant, although unhypothecated, has been treated as an economic development grant in line with the Council spending plans in relation to this grant. Grants are accounted for on an accrual basis and recognised in the accounts when the conditions for their receipt have been complied with. To meet earlier closure requirements where the exact value of a grant is not yet known estimates of the amounts due/owed have been made.

Government Grants (Capital)

Capital Grants are allocated to the Government Grants Unapplied account as they are received and transferred to the Government Grants Deferred Account as they are utilised to finance capital expenditure. As noted in the Deferred Charges policy above Capital Grants that relate to Deferred Charges written off in the year are credited to the service revenue account and treated as revenue grants. Where a Capital Grant has been used to finance an asset that is subject to depreciation then the grant is released from the Government Grants Deferred account to the appropriate service in the Income and Expenditure Account in line with the depreciation charged on the asset concerned.

Stock and Work in Progress

The Council has valued all stocks using an appropriate basis. Work in progress in respect of uncompleted jobs is valued at cost including an allocation of overheads. An exception to this is the Joint Equipment Store run as a pooled budget with the Torbay Care Trust where due to the nature of the purchases the costs are directly charged to revenue.

A general de-minimis limit of £10,000 is applied to the recognition of Stock.

Local Authority Trading Scheme (LATS)

DEFRA allocates tradable landfill allowances to each Waste Disposal Authority in England. The Council has adopted a “lower of cost and net realisable value” policy of accounting for the value of allowances as at 31st March 2007. For this purpose DEFRA have provided a value.

The Council has included the initial value adjusted for any trading as a current asset offset in part by a current liability to DEFRA for the actual landfill usage.

Central Overheads

The Council allocates the costs of administration and management, central support services and capital charges to services. This meets the requirement for services to be reported at total cost. 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.

Best Value

The Council is required to present the service expenditure analysis in accordance with the CIPFA Best Value Accounting Code of Practice. This analysis is in some service areas different to the Council's internal budgeting and monitoring arrangements.

Pensions

The pension costs charged to the Council's accounts in respect of its employees are based on the Devon County Council Pension Fund's actuary's estimate of the Current Cost of pension liabilities and other FRS17 'Retirement Benefits' entries within the Council's accounts. Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund in the year. The amount charged to the general fund for providing pensions for employees is the amount payable for the year in accordance with statutory requirements governing the pension scheme. Where this amount does not match the amount charge to the Income and Expenditure account for the year, any difference is taken to the pensions reserve.

In the Statement of Movement on the General Fund Balance 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 any amounts payable to the fund but unpaid at the year-end.

Torbay Council and its employees contribute to the Local Government Scheme administered by Devon County Council which is a defined benefit scheme and to the Teachers pension scheme which is classified for reporting purposes as a defined contribution scheme where FRS17 does not apply. The SORP exempts the Teachers' Pension scheme, a multi employer defined benefit scheme, from FRS17 requirements and requires it to be accounted for as a defined contribution scheme.

A defined benefit scheme is where 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.

A defined contribution scheme is where employers pay fixed amounts into a scheme and has no obligation to pay further amounts if the scheme does not have sufficient assets to pay employee benefits.

The Pension Fund's Actuary has stated that the pension figures, calculated under FRS17, supplied for Torbay are consistent with the Code of Practice provided by CIPFA. Further detail is provided in notes to the accounts in accordance with FRS17.

The Discount Rate for scheme liabilities is based on a "current rate of return on a high quality corporate bond of equivalent currency and term to the Scheme Liabilities" which is often referred to as "AA Corporate Bond Rates". The actuary has used discount rates based on the annualised yield on the iBoxx over 15 year rated corporate bond index as at 31st March 2007. In the previous year the rate was based on a non-gilt index, however the actuary has advised that impact of this change is negligible.

The overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are approximately 1% lower (2% higher 2005/2006) after the replacement of employers' contributions by FRS17 related costs. Net operating expenditure is also higher by 1% (1% lower 2005/2006) than it would otherwise have been.

The requirement to recognise the net pensions liability has reduced the reported net worth of the

Council by 34% (36% 2005/2006).

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 FRS17 does not apply to these costs.

Investments

Temporary investments are shown in the balance sheet at cost. They reflect the temporary investment of the Council's cash balances as at 31st March 2007. Such investments are held with banks and other similar institutions. Any interest due is accrued as interest income. The balance (if applicable) held by the Council's Fund Manager is valued at the original investment with all changes in that value of the investment accrued as interest to the Council. Other investments are also valued at cost. Investments due to be repaid within one year have been classified as Temporary Investments and investments due to be repaid in excess on one year as (Long Term) Investments.

Financial Relationships with Companies

Councils are required to produce Group Accounts in accordance with FRS2 (Accounting for Subsidiary Undertakings) and FRS 9 (Associates and Joint Ventures).

The Council owns Torbay Enterprise Agency, Torbay Development Agency Limited and has representation on the board of SWERCOTS Ltd 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.

On the 1 August 2005 the PLUSS Organisation was formed, this is a company limited by guarantee. Somerset County Council were admitted to the company in July 2006. Devon County Council, Plymouth City Council, Somerset County Council and Torbay Council each have an equal share in the company. PLUSS has not been consolidated into the Council's accounts as the amounts involved are not material.

Financial Relationship with 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 and any overspends on the Adults Social Care function provided by the Torbay Care Trust.

Section 31 of the Health Act permits Primary Care Trusts to exercise various local authority 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. (See Note 36).

VAT

VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable. Input tax is reclaimed from the date an invoice is input on the Council's payment system rather than on the date the invoice is paid.

FINANCIAL CERTIFICATES

The Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:-

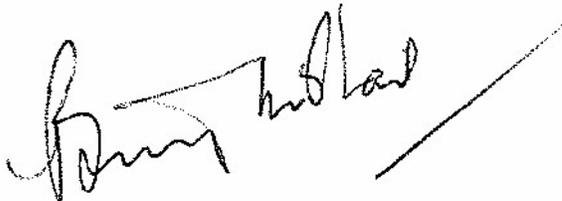
- ◆ to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance as the Council's Chief Finance Officer

- ◆ 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 2006/2007

I confirm that the Council completed its approval process of the Statement of Accounts 2006/2007 on the 28th June 2007 at a meeting of the Council.

A handwritten signature in black ink, appearing to read 'Councillor McPhail', with a long diagonal line extending from the bottom right of the signature.

Councillor McPhail
Chairman of the Council

Date 28th June 2007

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:-

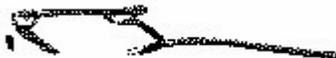
- ◆ kept proper accounting records which were up to date;
- ◆ taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Finance Officer's Statement

The Statement of Accounts as required by the Accounts and Audit Regulations 2003 amended 2006 is set out on pages 3 to page 116 and has been prepared in accordance with the accounting policies set out on pages 97 to 114. In my opinion it presents fairly the financial position of the Council at 31st March 2007 and its income and expenditure for the year ended 31st March 2007.

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

The Statement of Accounts 2006/07 were authorised for issue on 6th June 2007. This is also the date up to which events after the balance sheet date have been considered.



R. THORPE BAC PFA

Director of Finance

6 June 2007

Independent Auditors' Report to the members of Torbay Council

We have audited the financial statements of Torbay Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Financial Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities for the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

This report, including the opinion, has been prepared for and only for Torbay Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Council and its income and expenditure and the cash flows for the year.

We review whether the Statement on Internal Control reflects the Council's compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only explanatory foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of Torbay Council's website is the responsibility of the council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of Torbay Council as at 31 March 2007 and its income and expenditure and cash flows for the year then ended.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, slightly slanted style.

PricewaterhouseCoopers LLP

Bristol

27 September 2007

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

Council's Responsibilities

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

Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising the Council's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and

- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, Torbay Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007.

Best Value Performance Plan

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2006/07 in October 2006. We did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

Certificate

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



PricewaterhouseCoopers LLP

Bristol

27 September 2007

STATEMENT ON INTERNAL CONTROL 2006/2007

1. 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 ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control 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 system of internal control has been in place at Torbay Council throughout the year ended 31st March 2007 and up to the date of approval of the annual report and accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

The key elements of Torbay Council's internal control environment are summarised below:

Establishing and monitoring of the achievement of the authority's objectives

The Council's Corporate Plan 2006-09 shows what the Council is doing to contribute to the 8 themes from the existing Community Plan. The previous Community Plan for Torbay was published in September 2004, following extensive consultation. A new Community Plan with 4 main themes was agreed in January 2007 and the new Corporate Plan is currently subject to final amendments before approval and aligns the corporate objectives with the new corporate themes.

Business Plans and directorate performance are monitored by Performance Improvement Meetings on a quarterly basis and summary reports provided to the Overview and Scrutiny Board. The Corporate Plan and Business Plans are reviewed annually as part of the Council's Annual Planning Cycle.

Policy and Decision-making

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. The first Elected Mayor took up office in October 2005 following a Mayoral election. The full Council of 36 elected Members is responsible for approving the Mayor's budget and the policy framework. The Mayor is responsible for decisions within this framework and is supported by a cabinet of 6 other Members who oversee and advise on specific areas of Council business. Prior notice of matters for Mayoral or Officer level decisions that are classed as key decisions is 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.

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 in the Overview & Scrutiny Board which undertakes a range of reviews into policies and performance and also has the facility to call in Mayoral or Officer decisions and makes recommendations to the Cabinet / Council as appropriate. Overview and Scrutiny arrangements are to be reviewed in 2007/08 to reflect the new Community and Corporate Plans.

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.

All meetings are open to the public but a small number of confidential matters are considered in private. Council officers provide appropriate advice at the points of consideration and decision, and report to Members on progress and outcomes of decisions taken.

Compliance with established policies, procedures, laws and regulations

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 and by the Authority's Code of Corporate Governance.

Since its publication, Torbay Council has complied with the principles enshrined within the original CIPFA/SOLACE code on Corporate Governance and adopted a revised code of Corporate Governance in the 2004/05 financial year. This also reflects the requirements of the CIPFA/SOLACE Framework "Corporate Governance in Local Government: a Keystone for Community Governance".

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 comprises 50 per cent Independent Members 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 Member training; and dealing with complaints against Members under the Local Protocols.

The Council's intranet contains a range of policies, procedures and guidance for all staff including HR policies, Freedom of Information Policy and Data Protection and the Corporate Plan and Constitution.

Directors and Assistant Directors 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 Director of Law and Support has been given responsibility for overseeing the implementation and monitoring of the risk management strategy and policy and provides regular progress reports to the Torbay Change Group which has responsibility for monitoring the approach to Risk Management and efficiency savings.

The Council completed a detailed review of its Risk Management policy and Strategy in the current year. A revised strategy has been produced and key risks considered by Torbay Change Group and Members. Risk Management is included within the remit of the Audit and Risk Sub Committee which reports to the Overview and Scrutiny Board.

Directors and Business Unit Managers 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.

Economical, effective and efficient use of resources and securing continuous improvement

The Council has in place a clear annual planning cycle including detailed business plans for all business units / service areas. The cycle includes the creation of the Medium Term Financial Plan and is built up from the corporate plans and business plans in place within the organisation. The plan covers the forward projection for a number of years and identifies the significant financial pressures and issues facing the Council and an overview action plan which achieves a balanced position. Business Plans' targets are reviewed by Performance Improvement Meetings and actions recorded on the Council's SPAR system.

The Council is continually looking for efficiencies and service improvements including regular meetings of the Torbay Change Group whose remit also includes monitoring and developing change management within the Council. In addition there are a number of other corporate groups that deal with the identification and monitoring of 'Gershon' savings across the Council, the continued extension of the procurement function and the outcomes of any business re-engineering exercises.

The Council has a well developed scrutiny function which undertakes detailed reviews into key service areas as part of its agreed work programme and is constantly reviewed.

A range of financial management measures are in place to ensure the effective use and management of resources.

Financial Management

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 financial 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 Directorate 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 Strategic Management Team and Performance Improvement Meetings. In addition Directorate Management Teams also consider their respective budgets on a regular basis. This is supported by an established budget monitoring process by managers and Accountancy staff.

Performance Management

The Council has strengthened its arrangements for performance management including improvements to business planning and completed a high level fundamental service review of all business units. It is taking a more systematic approach to appraising the performance of its staff and to meeting their training and development needs.

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. The Authority is now rated as two stars following the Corporate Performance Assessment in January 2007.

Performance Improvement Meetings have been established for all the Council's Business Units including the Torbay Care Trust which took over the Adult Social Care Function with effect from December 2005 and is a partnership between Torbay Council and the Primary Care Trust. These meetings monitor performance against performance indicators and also consider progress against the Strategic Plan, Business Plans, delivery of Service Level Agreements, budget monitoring reports and other performance issues. The Boards comprise the relevant Scrutiny Member, Cabinet Member and Director and the relevant Assistant Director for the service, and report to the Overview and Scrutiny Board.

The Council records performance information using performance-reporting software and action on areas of poor performance is closely scrutinised. The performance reporting system is based on exceptions and where performance is identified as a concern, appropriate corrective action will be considered and scrutinised.

The Council has three Strategic Directors who each have responsibility for the Council's key themes from the Community and Strategic Plan. Key issues and targets for statutory indicators and corporate priorities and policies are cascaded down the organisation through business plans and reflected in individual performance targets as part of the Council's personal appraisal process (RADAR).

4. REVIEW OF EFFECTIVENESS

Torbay Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the work of the Internal Auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the External Auditors and other review agencies and inspectorates.

Overall responsibility for the system of internal control rests with the Mayor and Chief Executive and they receive regular reports from the Director of Finance (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 Financial Plan.

This is supported by an annual review of Internal Audit by the Director of Finance which reviews compliance with the CIPFA Code of Practice and the effectiveness of the audit service. No major issues have been identified although audit resources have been limited and potentially this may have reduced their effectiveness. The service has however maintained the level of assurance it is able to provide to management. Resource issues have been addressed as part of the 2007/08 budget process.

The Council's Constitution is continually reviewed throughout the year by a Constitution Working party and includes various codes of conduct, as well as defining the relative responsibilities of the Council, the Mayor, Scrutiny Board and Chief Officers. This also includes the Council's Standing Orders and Financial Regulations.

Internal Audit

The Council's Internal Audit Plan, which is risk based, is agreed annually with Chief Officers and the Council's Audit and Risk Sub Committee. This provides the basis for the review of internal control 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 & Risk Sub Committee and Directors' Management Team on a twice yearly basis. This report also includes an opinion and assurance about the system of internal control throughout the Council.

Regular meetings are also held between the Director of Finance, Assistant Director Internal Audit and the Monitoring Officer (Director of Law and Support) to discuss financial, ethical and probity issues.

External Review

The Comprehensive Performance Assessment review in January 2007 scored the Council two out of four for Use of Resources which demonstrates a commitment by the Council to manage its affairs wisely and satisfactorily. The assessment covered: -

- Financial Standing
- Internal Financial Control
- Standards of financial conduct and prevention of fraud
- Financial Statements
- Legality of financial transactions
- Value For Money.

The external assessment indicated that in certain key areas higher scores may be expected as new systems and approaches are bedded in and seen to be operating over a prolonged period of time. There were no areas that were classified as below expected standard.

A review of Data Quality by the Council's External Auditors scored the Council as 2 out of 4 and did not identify any concerns over the management and recording of data. Similarly there were no areas at below expected minimum standards.

The Council has embarked on an ambitious programme to improve corporate arrangements in a number of areas. There has been substantial progress in many of these areas as recognised by External Audit and by the Audit Commission Comprehensive Performance Assessment.

The Annual Audit and Inspection Report for 2006 was very positive and did not identify any significant weaknesses in internal control arrangements. The report was reviewed by the Audit and Risk Sub Committee and appropriate actions implemented as necessary.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

As a consequence of the above reporting mechanisms, Members and Directors 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 system of internal controls and associated reviews during the year identified some areas where action is appropriate to enhance the internal control environment and ensure continuous improvement as follows: -

- Further embed risk management within departments and ensure risk registers are up to date and reviewed
- Continue the implementation of proper management review procedures of key information such as budget monitoring and review, review of performance information including PIs, local PIs, local targets
- Ensure that processes are further developed to ensure all changes such as service requirements, customer base and legislation are properly dealt with and in accordance with agreed documented procedures
- Review corporate governance arrangements and performance management of the Council and its partnerships
- Ensure all assets are properly recorded and safeguarded.
- Implementation and follow up of Internal Audit recommendations
- The implementation of further controls in some areas when dealing with data and key information
- Administrative procedures should be reviewed and updated on a regular basis and all changes fully documented.
- Data quality improvements within Human Resources.

These areas are already included within existing corporate or departmental plans and work is currently underway to address the issues identified.

6. CERTIFICATION

To the best of our knowledge, the internal control environment as defined above has been effectively operated during the year.

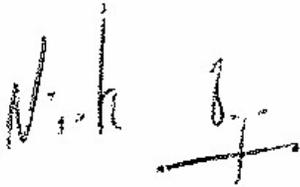
Signed

A handwritten signature in black ink that reads "Elizabeth Raikes". The script is cursive and fluid.

Elizabeth Raikes – Chief Executive

Date: 6th June 2007

Signed

A handwritten signature in black ink that reads "Nick Bye". The signature is stylized and appears to be written in a cursive or semi-cursive hand.

Nick Bye - Mayor of Torbay

Date: 6th June 2007

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.

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).

Assets – Property that yield benefits for a period of more than one year, split into categories:

Operational Assets – held, occupied, used or consumed in the direct delivery of those services for which the Council has either a statutory or discretionary responsibility, e.g. schools, offices, leisure centres, depots. These also include -

Infrastructure Assets – fixed assets which by their very nature cannot be sold and therefore expenditure can only be recoverable by continued use of the asset created, e.g. coastal defences, highways, land drainage.

Community Assets – assets which the Council intends to hold in perpetuity, that have no determinable finite useful life, and may have restrictions on their disposal, e.g. parks, historic buildings.

Intangible Assets - non-financial assets which do not have physical substance but are identified and controlled by the Council through legal rights e.g. IT software

Non-Operational Assets – held by the Council but not directly occupied, used or consumed in the direct delivery of services, e.g. assets in the course of construction and surplus land.

B

Borrowing - Council's borrow to fund Capital expenditure or for temporary cash flow requirements. The majority of Council borrowing will be from Central Government by means of the Public Works Loans Board. Council's are free to use other borrowing options provided they are within the Council's treasury management arrangements.

C

Capital Expenditure - payments made for the acquisition, provision or improvement of assets, which will be of a long-term value to the Council, e.g., land and buildings.

Capital Financing Account - The Capital Financing 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.

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.

Curtailement – 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.

Debtors - sums of money due to the Council but unpaid at the end of the year.

Deferred Charge – 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. Deferred charges include items such as improvement grants and grants to community organisations.

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 or 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.

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.

Fixed Assets – see Assets.

Fixed Asset Restatement Account – this Account mainly represents the difference between (re) valuations of Fixed Assets and their original capital cost.

G

Government Grants & Contributions Deferred Accounts - these accounts holds government grants and other contributions used to finance capital expenditure. As assets to which these grants relate are depreciated, grants are released from this account into the service Revenue account to help offset the cost of depreciation.

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 investment potential.

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.

L

Liquid Resources – Current asset investments that are readily disposable by the Council without disrupting its business.

M

Minimum Revenue Provision - The minimum amount which must be charged to an Council's revenue account each year and set aside as provision for repayment of debt as required by the Local Government Act 2003.

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.

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.

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.

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.

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.

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.

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.

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

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.