

**DOCUMENT SUBJECT TO EXTERNAL AUDIT**

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## **OPERATING AND FINANCIAL REVIEW FOR THE 2014/15 FINANCIAL YEAR**

### Welcome

Welcome to Torbay Council's Statement of Accounts ("The Accounts") for the 2014/15 financial year ending 31<sup>st</sup> March 2015. The Accounts are compiled in accordance with relevant legislation and guidance – primarily International Financial Reporting Standards (IFRS) and the CIPFA Accounting Code of Practice ("the Code").

The Accounts show a "true and fair" financial picture of the Council's total income and expenditure in the 2014/15 financial year and its balance sheet as at 31<sup>st</sup> March 2015, detailing all the Council's assets and liabilities with supporting notes to add further explanation. The Accounts are prefaced by this Operating and Financial Review which aims to provide a narrative outline on the financial position of the Council for both 2014/15 and in future years.

### "Pen Picture" of Torbay

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

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

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

<http://www.torbay.gov.uk/index/yourcouncil/financialservices/budget/budget2015-16.htm>

Torbay Council has an elected Mayor as well as 36 elected ward councillors. The elected Mayor in 2014/15 was Gordon Oliver. The majority of the 36 ward councillors in 2014/15 were Conservative party councillors. The next full Council and Mayoral elections were May 2015 when Gordon Oliver was re elected along with a majority (26) of Conservative party councillors.

### Significant Events in 2014/15

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

The Council continued to plan for, and work with, reduced funding levels for both revenue and capital from Central Government for 2014/15 and future financial years as a result on the ongoing "austerity" reductions in public expenditure. The 2014/15 budget approved by Council required £9m of budget reductions, a further £12m was required for 2015/16 and an estimated funding gap over over £30 million for the following three years. The Council did set a Council Tax at the same level as the previous year, which entitled the Council to a council tax "freeze" grant equal to a rise of 1% in Council Tax.

For Torbay in 2014/15 its central government funding baseline was £63m of which £35m (£43m 13/14) was central government "revenue support" grant, £17m (£18m 13/14) was its 49% share of NNDR income and £11m (£10m 13/14) its "top up" grant. To demonstrate the level of funding reductions facing the Council the £35m of central government grant in 2014/15 is to reduce by £9m to £26m in 2015/16. Due to the national election in May 2015 no indicative settlement for 2016/17 and future years have been announced which makes longer term financial planning difficult.

Council schools continued to convert to Academy status and are now fully independent of the Council. In Torbay, by 31<sup>st</sup> March 2015, a total of 24 schools had converted with 5 schools converting in 2014/15 and further schools possibly due to convert in 2015/16.

### Purpose of Financial Review and Statement of Accounts

The purpose of the Statement of Accounts included in this document is to present to the reader a detailed overview of the Council's financial position as at the end of March 2015 giving information as to the Council's assets and liabilities at a point in time (31<sup>st</sup> March 2015) and detail on the Council's financial performance during 2014/15. This information is, where material, supported by notes to the accounts. The Accounts and Audit Regulations require a Statement of Accounts to be produced for each financial year by the end of June.

The format of this Financial Report is this Operating and Financial Review followed by the Statement of Accounts including the Core Financial Statements for 2014/15, and the supporting notes to those core financial statements and Collection Fund Summary Account (for the accounting for the collection of NNDR and Council Tax) and lastly the Annual Governance Statement.

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

### External Audit and Public Inspection of the Accounts

The Accounts are subject to a detailed audit by the Council's external auditor (Grant Thornton UK LLP). Under the Accounts and Audit Regulations, the Accounts, with its supporting documents, are available for public inspection. Full details are available from Financial Services at Torquay Town Hall or on the Council's website at:-

[http://www.torbay.gov.uk/index/council/financial\\_services/accountsinspection.htm](http://www.torbay.gov.uk/index/council/financial_services/accountsinspection.htm)

### Annual Governance Statement

The Council, under the Accounts and Audit Regulations must approve an Annual Governance Statement prepared in accordance with proper practices in relation to internal controls. The 2014/15 statement has been included within this Financial Report, but is not part of the Accounts and is outside the external auditor's opinion on the Accounts.

### Rounding

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

### "Cutting the Clutter"

CIPFA, who provide guidance to Councils on the format and content of accounts are encouraging Councils to reduce the length of their accounts by removing unnecessary wording, duplicate information and to remove notes that are "not material". The Council, with support from its external auditor, has removed some notes and accounting policies that are not material or significant. In addition a number of tables have been reformatted for both clarity and to combine information. Materiality has been taken to be values under £4m. However, despite this the Accounts are a technical document and due to statutory requirements it is still a lengthy and complicated document.

### Overview of Financial Performance

This was again a very challenging financial year for the Council with the requirement to make reductions of £9m as well as facing increasing demand for childrens' social care services. Childrens safeguarding and wellbeing, due primarily to rising numbers and costs, was significantly over its budget allocation by over £6m before the application of £1.5m of earmarked reserves and a £2m childrens services contingency. In addition the Council incurred £0.5m of costs associated with staff exit packages resulting from reductions in funding.

Council in October 2014 approved a five year cost reduction plan for childrens services, which aims to achieve a surplus in childrens services in 2017/18, with planned use of earmarked reserves in 2015/16 and 2016/17 to fund the expected overspends in those two years.

Despite these significant service pressures, the Council's financial performance in 2014/15 still resulted in a break even position after reserve movements for the year. This was, in part, due to the use of earmarked reserves to support service pressures. This was also a result of careful financial management including a "freeze" on staff recruitment and a moratorium on purchasing. These measures, combined with the use of the Council's contingency, some earmarked reserves and underspends in other services, resulted in the Council staying within its 2014/15 budget and for this officers and members should be commended.

The Council's gross expenditure in the year was over £300m for revenue (day to day) spend and over £20m for capital (spend on long term assets such as roads and schools).

The Council's Comprehensive Income and Expenditure Statement (CIES) is the Councils income and expenditure presented on an IFRS basis. This includes earlier recognition of grants, based on conditions attached to the grant rather than matching the grant to expenditure and a number of "non cash" items such as depreciation and pension assumptions, which should then allow the Council's accounts to be comparable to other sector accounts. The total for the Provision of Services for 2014/15 is a deficit of £17m. The key reasons for this deficit is a loss on asset disposals of £10m arising from the transfer of schools from the Council to become Academy schools combined with depreciation and impairment charges of £12m.

The total from the Comprehensive Income and Expenditure statement is reflected in the Movement of Reserves statement which then adds the impact of any reserve movements to usable reserves and unusable reserves to get to the "bottom line" Council position for 2014/15. Within this is the reversal of a number of accounting entries made under IFRS that appear in the Council's Comprehensive Income and Expenditure statement such as depreciation and pension assumptions, which are allowed, under statute, to be reversed to ensure that these entries do not have a "cash" impact on the Council Tax payer. After these adjustments the Council's net outturn for the year was a break even position, which matches the Council's internal financial reporting position. This statement shows that the Council's usable reserves had a net decrease of £7m. This was primarily a decrease in earmarked revenue reserves of £3m and the use of £5m from capital grants to fund capital expenditure in the year.

The Council also spent £20m on capital projects including schemes such as South Devon Link Road and a number of school projects. This total is similar to recent years but lower than in the last decade which reflects, in part, the reduced capital resources from central government to support Council's capital expenditure.

On the balance sheet there were some significant changes in year. The major change was a £48m increase in the Council's pension liability. There was a reduction in the value of the Council's property assets related to the transfer of schools to academy status of £10m. Any borrowing or other liability associated with capital expenditure on these assets in previous years remains with the Council. The Council's general fund reserve remained at £4.4m, which is equivalent to 4% of the Council's 2015/16 net revenue budget which is considered to be close to a prudent level.

Overall the Council's net assets were lower than the previous year by £59m.

#### Torbay "Group" Companies – Overview of Financial Performance

The Council has interests in a number of companies. For 2014/15 the value of the Council's interests in these companies, after consolidation of inter group balances, is not considered to be sufficiently material to require the production of group accounts for the Council.

An overview of these companies financial performance in the year, based on draft 2014/15 accounts, is shown in the table below.

Entity	Assessed Relationship	Council Shareholding /Control	Turnover £m	Surplus/(Deficit) for year £m	Net Equity £m
Torbay Economic Development Company Ltd	Subsidiary	100%	£4.5m	(£1.5m)	£1.1m
English Riviera Tourism Company Ltd	Subsidiary	100%	£0.7m	(£0.2m)	(£0.3m)
Oldway Mansion Management Co Ltd	Subsidiary	100%	£0.1m	0	0
TOR2 Ltd (15 months to 30/06/14)	Associate	19.99%	£23.9m	£0.4m	(£1.5m)
Careers SW Ltd	Associate	25%	£11.0m	£0.1m	£1.7m
PLUS Ltd	Associate	25%	£28.4m	£0.8m	£2.0m

#### Key Financial Ratios

The following “basket” of ratios is to provide a snapshot of the financial performance of the Council.

	2013/14	2014/15
Uncommitted General Fund Balance / Annual Budgeted Net Expenditure	3.5%	3.8%
Movement to/(from) the Uncommitted General Fund Balance	Nil	£14k
Council Tax In-year collection rate	94.9%	95.5%
Council Tax Income / Overall Funding (CT, NNDR & RSG)	43%	45%
Actual outturn compared to budget (before Council approved outturn report)	(£0.8m)	(£0.3m)
Actual outturn compared to budget - %	(0.6%)	(0.2%)
Capital Financing Requirement	£135m	£135m
External Debt levels (principal)	£138m	£138m
Ratio of net financing costs to net revenue (excluding revenue contributions to capital).	8%	9%

#### Forward Financial look

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

Ongoing impact of the Government’s Austerity plans which has reduced funding by up to 30% over the four years 2011/12 to 2014/15. Further reductions have been confirmed for 2015/16

where the Council's revenue support grant will reduce by £9m. There has been no specific funding announcement for 2016/17 onwards however reductions in funding are expected to continue at a similar rate to recent years.

Continued ongoing impact of the economic conditions. There is evidence of some economic recovery within Torbay however there is still an ongoing negative impact on services such as NNDR income and collection.

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

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

Since 2010 the Government has introduced a range of new legislation which impact on public services in Torbay and will continue to do so in the future. These include:

Further transfer of schools from Councils to become Academy schools funded direct from central government. These schools are independent of the Council so their assets, income and expenditure will not form part of the Council's accounts. By the end of 2015/16 it is possible that all secondary schools in Torbay will have become Academy schools. Council funding will be reduced to reflect the lower number of schools managed by the Council.

Reform of the Benefit System includes the phased introduction of the Universal Credit which is expected to be administered on a national basis. Torbay is in tranche four of the rollout of the scheme which is due to be introduced in Torbay between December 2015 and April 2016. This will replace a number of benefits including the Council administered Housing Benefit. The Council currently pays over £65m of this benefit each year with the associated staff and IT support.

Under the National Health reforms the commissioning and delivery of NHS services will continue to change. In Torbay during 2015/16, Torbay and Southern Devon Health and Care NHS Trust, who the Council currently commission to provide adult social care is expected to be acquired by South Devon Healthcare Foundation Trust, to form an "Integrated Care organisation" (ICO).

Although health and social care are integrated, in part, within the provider trust within Torbay, there is further central government initiatives for health and social care to work closely together. In 2015/16 the government has introduced a Better Care fund, which is an amalgamation of a number of existing social care and health revenue and capital funding streams into one "s75 pooled budget" which will be administered jointly by the Council and the (NHS) Clinical Commissioning Group.

In addition the Care Act 2014 came into force from April 2015 introducing further changes to health and social care including a deferred payments scheme to fund the costs of a clients social care.

The government is also changing the national distribution of transport funding from 2015/16, with some existing transport resources being allocated to Local Enterprise Partnerships (LEP's) to co ordinate and prioritise.

### **Revenue Budget:**

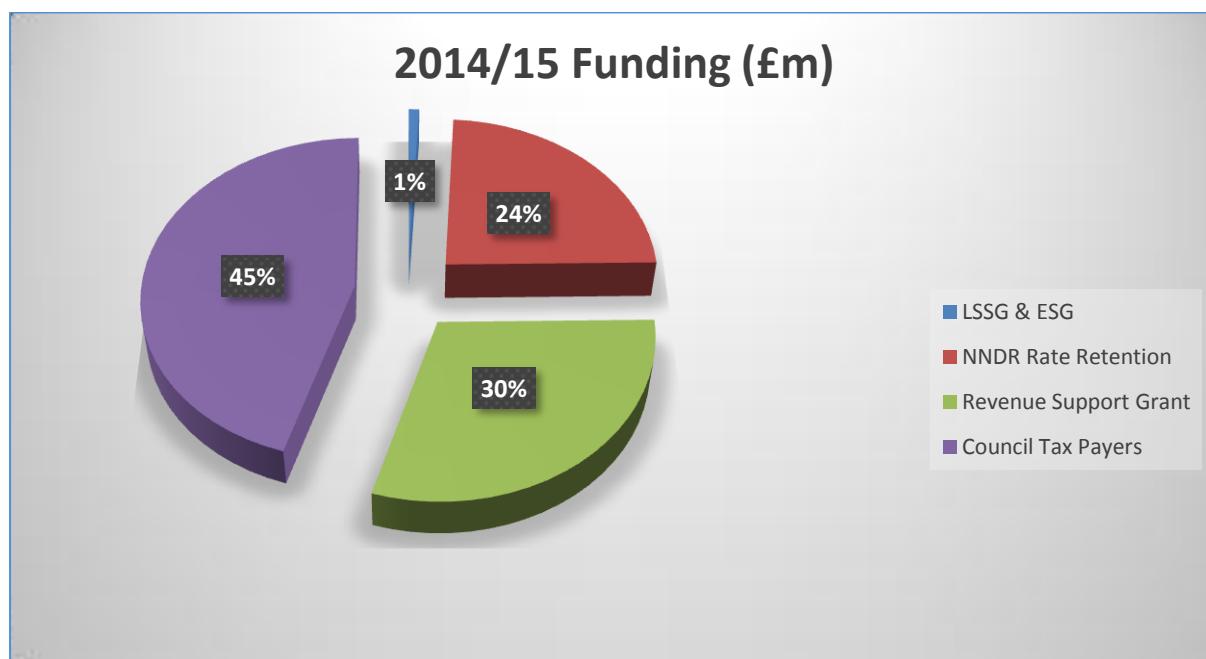
The Council has established procedures for reporting financial information. In addition to internal monitoring, where in some more volatile budgets the monitoring is weekly but mostly monthly, the Council reports its revenue and capital financial performance on a quarterly basis to its Overview and

Scrutiny Board and to Council. These reports can be accessed by looking at Council reports on the Council's website.

### Funding

In February 2014 the Council set a budget for 2014/15 of £116m (£127m 13/14), which was to be funded as shown in the table below. This resulted in a zero percent "freeze" in the level of Council Tax for Torbay Council.

	2013/14	2014/15	
	£ m	£ m	% change
Net Budget Requirement	127	<b>116</b>	(9%)
Local Services Support & Education Grant	(1)	<b>(1)</b>	0%
NNDR Rate Retention	(29)	<b>(28)</b>	(3%)
Revenue Support Grant	(43)	<b>(35)</b>	(19%)
Council Tax Payers	(52)	<b>(53)</b>	2%
Collection Fund (Surplus)/deficit	(2)	<b>1</b>	n/a
	£	£	
Band D Council Tax – Torbay Council Only	£1,261.17	<b>£1,216.17</b>	0
Band D Council Tax – including Police, Fire and Brixham Town Council	£1,527.22	£1,538.71	1%



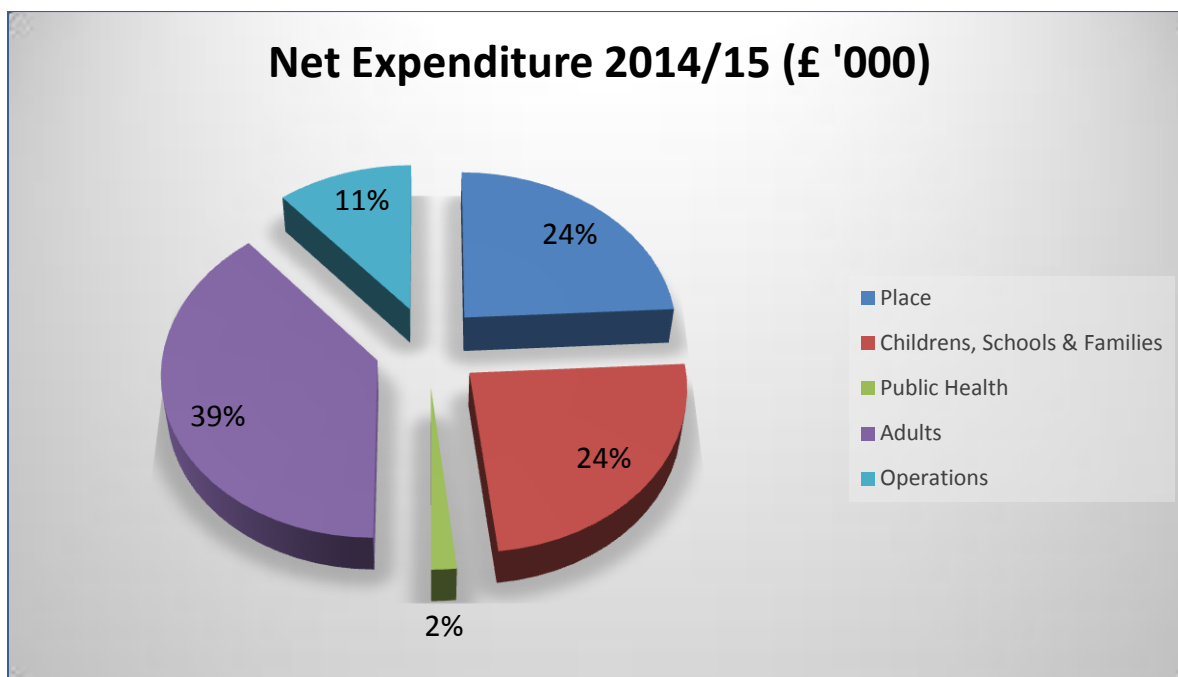
### Expenditure

In July 2015 the Council is due to receive a revenue outturn report detailing income and expenditure in 2014/15 and reasons for any variances. The report can be obtained from the Council's website. The summary of budget and expenditure by service in 2014/15 after carry forwards, as presented in that report, is shown in the table below:

**Net Revenue Expenditure 2014/15**

Council Services Management Structure as at 31 <sup>st</sup> March 2015	Revised Budget Gross Spend  £m	Revised Budget Gross Income  £m	Revised Budget  Net  £m	Outturn  £m	Net Over/  (Under) spend  £m
<b>Adult Social Services:</b>					
Adult Social Care	43.4	(0.7)	<b>42.7</b>	<b>43.2</b>	<b>0.5</b>
Supporting People	2.2	(0.3)	<b>1.9</b>	<b>1.7</b>	<b>(0.2)</b>
<b>Childrens Services</b>	76.9	(51.6)	<b>25.3</b>	<b>27.7</b>	<b>2.4</b>
<b>Public Health:</b>					
Public Health	8.1	(8.1)	<b>0</b>	<b>0</b>	<b>0</b>
Community Safety	3.9	(1.6)	<b>2.3</b>	<b>2.2</b>	<b>(0.1)</b>
<b>Place:</b>					
Residents & Visitors	16.6	(9.3)	<b>7.3</b>	<b>7.2</b>	<b>(0.1)</b>
Harbours & Beaches	3.4	(3.4)	<b>0</b>	<b>0.1</b>	<b>0.1</b>
TDA – Regeneration	5.0	(1.2)	<b>3.8</b>	<b>3.7</b>	<b>(0.1)</b>
Spatial Planning	7.1	(1.6)	<b>5.5</b>	<b>5.5</b>	<b>0</b>
Waste & Cleaning	12.2	(0.7)	<b>11.5</b>	<b>11.5</b>	<b>0</b>
<b>Operations:</b>					
Finance inc Corporate	90.0	(82.4)	<b>7.6</b>	<b>5.9</b>	<b>(1.7)</b>
Commercial	6.3	(1.7)	<b>4.6</b>	<b>4.5</b>	<b>(0.1)</b>
IT Services	4.3	(1.0)	<b>3.3</b>	<b>3.2</b>	<b>(0.1)</b>
<b>Sub Total</b>	<b>279.4</b>	<b>(163.6)</b>	<b>115.8</b>	<b>116.4</b>	<b>0.6</b>
<b>Sources of Funding</b>	<b>-</b>	<b>(115.8)</b>	<b>(115.8)</b>	<b>(116.4)</b>	<b>(0.6)</b>
<b>Total</b>	<b>279.4</b>	<b>(279.4)</b>	<b>0</b>	<b>0</b>	<b>0</b>





#### Capital Budget:

The Council in July 2015 is due to receive a capital outturn report detailing income and expenditure in year and reasons for any variances, which can be obtained from the Council's website.

#### Funding

The Council spent £20.4m on capital expenditure in 2014/15 and this funding is shown in the table below.

	Latest Budget £m	Outturn £m	Variation £m
Borrowing – of which	6.4	4.9	(1.4)
Supported: (by Government funding)	0.1	0.4	0.4
Unsupported: (under Prudential Code )	6.3	4.5	(1.8)
Grants	13.7	13.0	(0.7)
Other Contributions	0.5	0.6	0.1
Revenue & Reserves	1.6	1.8	0.1
Capital Receipts	0.6	0.1	(0.5)
<b>Total Funding</b>	<b>22.8</b>	<b>20.4</b>	<b>(2.4)</b>

The capital expenditure in the year of £20.4m based on the four management divisions that the Council reports on for internal reporting are as follows:

	Latest Budget £m	Outturn £m	Spent %	Variation £m
Childrens, Schools & Families	5.8	6.3	109	0.5
Place & Resources	14.4	12.3	85	(2.1)
Adults Services	0	0	0	0
Public Health	0.9	0.7	78	(0.2)
All Services including contingency	1.7	1.1	65	(0.6)
<b>Total</b>	<b>22.8</b>	<b>20.4</b>	<b>89</b>	<b>(2.4)</b>

#### Material Assets or Liabilities acquired

##### Assets:

The Council spent £20.4m on capital assets of which £12.6m was added to the value of the Council's non current assets (before any in year revaluation). The balance of £7.8m was capital expenditure on assets the Council does not recognise as its own, such as academy schools and capital grants. A summary of capital expenditure in 2014/15 is shown below:-

Scheme	2013/14	2014/15	
	Spend £m	Scheme	Spend £m
Princess Promenade	1.3	Cockington Primary School	<b>2.5</b>
Riviera Centre	0.8	South Devon Link Road	<b>2.8</b>
Disabled Facilities Grants	0.7	White Rock Primary School	<b>1.1</b>
Beach Huts	0.6	Beach Huts	<b>1.8</b>
Paignton Cycle Track	0.5	Torquay Harbour Pontoons	<b>0.8</b>
Other Schemes	13.4	Other Schemes	<b>11.4</b>
2013/14 Total	17.3	<b>2014/15 Total</b>	<b>20.4</b>

##### Liabilities

No significant liabilities were acquired by the Council in 2014/15.

##### Significance of Pension liability

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

The Council's liability as at 31<sup>st</sup> March 2015 is assessed at £168m, a £48m increase, primarily due to actuarial "remeasurements" of the pension scheme liabilities and assets. In particular the actuary changed the discount rate in the liability calculation to 3.3% from 4.5% which caused the significant change in liability.

### Explanation of any “unusual” costs/income

There were a number of “unusual” costs within the income and expenditure account in 2014/15. These include:

As a result of the budget reductions a total of £0.5m (£0.8m 13/14) of costs in relation to a reduction of 27 staff were incurred of which £0.4m (£0.7m 13/14) was paid during 2014/15 and a provision of £0.1m (£0.1m 13/14) for future costs arising from the budget reductions was made in 2014/15.

In 2014/15, five schools converted to Academy status where the transfer for nil consideration resulted in a loss on disposal on those assets of approx £10m. Income and expenditure for these schools from date of transfer no longer forms part of the Council accounts.

### Impact of Current Economic Climate

The economic climate continued to have an impact on the Council, although there were some continuing indications of a recovery, there were no significant changes compared to recent years. Income levels on certain services such as planning and S106 income remained low. Collection rates on NNDR was lower than prior year levels and there was a reduction in NNDR income. As conditions have remained constant there have been no material changes on the value of the Council’s property assets during the year.

### Changes in Accounting Policies

There has been a long running debate on the recognition of school non current Assets (i.e. land and buildings). CIPFA have issued further guidance on this issue but there still appears to be divergence among Councils in relation to schools owned by a diocese. Torbay, in consultation with its external auditors, is now recognising the non current Assets (such as land and buildings) for Foundation schools (where the ownership is with the governing body) and the buildings of diocese owned schools – both voluntary controlled and voluntary aided schools. This has required the restatement of the Council’s 13/14 accounts to recognise the changes in asset recognition. This change resulted in the recognition of £50m of school assets from April 2013. It should be noted that some of the school assets now recognised are schools that have transferred to academy status since April 2013 which are then accounted for as a disposal.

### Schools

The Council, as at 31<sup>st</sup> March 2015, has 16 schools that are reflected in the Council’s accounts, both within its Income and Expenditure Statement and its Balance Sheet. These are 12 Primary schools, 2 Secondary schools and 2 Special schools. The 16 schools by “ownership” are 8 community schools, 3 voluntary controlled, 3 voluntary aided and 2 foundation. These 16 schools are funded by the Dedicated Schools grant which for 2015/16 is £42m. The level of earmarked school reserves as at 31<sup>st</sup> March 2015 is £2.9m. Further detail on school asset recognition and the use of Dedicated School Grant in 2014/15 are included in the notes (3 and 29 respectively) to the these accounts.

### Planned Future Developments in service delivery

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

The Council is part of a Waste Partnership with Plymouth City Council & Devon County Council which was set up in 2008 to source a household waste disposal solution for South West Devon. The three Councils jointly signed a 25 year contract for waste disposal with German Company MVV Umwelt in March 2011 following a public procurement exercise. MVV are currently building an energy from waste facility on leased Ministry of Defence land at Camels Head North Yard in Devonport Dockyard, Plymouth. The Plant was operational in April 2015 when the plant received waste from the three authorities in return for contract payments linked to tonnages of waste delivered.

The exact accounting treatment of the contract payments for waste disposal which will commence

April 2015 has not been finalised, and finance staff from the three local authorities are working with external financial advisors to establish the appropriate accounting treatment. The final agreed treatment will not impact on the net revenue accounts of each council, and therefore will not affect the council tax requirement.

It is anticipated that more schools will opt for Academy status in 2015/16. From transfer date to Academy status the Council's accounts will no longer consolidate any revenue assets/liabilities or income/expenditure incurred by those schools.

The Council is continuing to work closely with health partners to integrate health and social care (both adults and childrens). In 2015/16 it is expected that the Council's provider of Adult Social Care, the Torbay and South Devon NHS Provider Trust will be "acquired" by South Devon Healthcare. In addition from April 2015 the Council will be co managing the Better Care Fund with the Clinical Commissioning Group (CCG). This Fund is a pooled budget combining £11m of social care and health funding.

A Youth Trust is planned to start in 2015/16, a charitable company taking on the management of Youth Services in Torbay including My Place in Paignton.

Some Education services will be provided by the Torbay Teaching School Alliance, a group of schools working together led by Oldway Primary School. <http://www.oldwayschool.co.uk/page/?pid=75>

The Council has received a £1.2m grant for social care innovation which will be used in part to investigate the creation of a Local Integrated Services Trust (LIST) for a range of social care functions.

In February 2015 Council agreed a reduction in the Council's senior leadership team with a number of changes in the management of some services. Subsequent to these changes Martin Phillips has been appointed as the Council's statutory Chief Financial Officer from May 2015.

The impact of the reductions required under the "Austerity" agenda will inevitably impact on the range of services provided and how these services are provided in the future. The Council for 2015/16 has agreed over £11m of reductions. The Council produces a rolling forward financial plan called The Medium Term Resource Plan which is available on the Council website. Within that document, (last update March 2015), there is a summary of projected revenue income and expenditure for the next three financial years.

	2016/17 £m	2017/18 £m	2018/19 £m
Revenue Support Grant, NNDR, Council Tax / Collection Fund	(101)	(95)	(90)
Estimated Expenditure	115	117	121
Savings identified	(2)	-	-
<b>Total Estimated Cumulative Funding Gap</b>	<b>12</b>	<b>22</b>	<b>31</b>
In- year Funding Gap	12	10	9

The Council has an approved Capital Investment Plan that is updated every quarter for new funding and new schemes and reported to Council. An update (as at quarter three 2014/15) was in February 2015 which is available on the Council website. A summary of anticipated capital spend over the next four years, based on funding that had been announced/confirmed by February 2015, is summarised below.

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Total Capital Expenditure	30	21	11	n/a

### Borrowing & Investments

The Council undertakes borrowing to support its capital expenditure. As at 31<sup>st</sup> March 2015 the Council had £138m of borrowing, primarily from the Public Works Loans Board. In addition it had a long term liability of £8m to the PFI contractor for Westlands and Homelands schools. The Council had £69m of cash investments at year end with a net debt position of £77m. The control over the level of Council borrowing is supported by the Prudential Code where the Council has to set limits in relation to its treasury management including limits for long term borrowing and liabilities to ensure that this is prudent and affordable. One of these indicators is a calculation called the Capital Financing Requirement which shows the Council's underlying need to borrow based on previous decisions on capital expenditure and borrowing offset by any repayment of principal made or other capital funding used. The key figures, in relation to borrowing and capital financing, are as follows:

	31 <sup>st</sup> March 2014 £m	31 <sup>st</sup> March 2015 £m
<b>Balance Sheet Values: (principal)</b>		
External Borrowing *	138	138
Long Term Liabilities	9	8
External Investments *	(67)	(69)
<b>Net Debt</b>	<b>80</b>	<b>77</b>
<b>Treasury Management Limits:</b>		
Capital Financing Requirement	135	135
Authorised Limit	192	231
Operational Limit	173	161
	2013/14	<b>2014/15</b>
<b>Revenue Income &amp; Expenditure:</b>		
Interest Receivable	(1.0)	(0.8)
Interest Payable	7.0	6.1
MRP repayment re PFI liability	0.4	0.4
MRP & VRP (for repayment of principal)	4.2	4.2

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

The level of Council borrowing reflects the Council's capital financing requirement plus the borrowing required by the approved four year Capital Investment Plan. The Council's investments and other cash holdings are sufficient to meet the Council's short and medium term cash requirements for revenue and capital expenditure and any "cash backed" balance sheet items such as reserves and working capital.

### Significant Provisions or contingencies

The Council has provisions at year end of £1.9m (£2.2m 13/14) to meet known liabilities. These are primarily in relation to insurance claims, (submitted to the Council but are currently being investigated), and in relation to costs of NNDR appeals submitted to the Valuation Office by 31<sup>st</sup> March 2015.

The Council has given a number of pension guarantees as Council staff transferred to other bodies such as Torbay Development Agency. These are unlikely to result in a cash payment so are treated as a contingent liability. As owner or part owner of several limited companies the council has some

exposure to risk but this is limited by share or guarantee.

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

The Council's policy for setting fees to care home providers was taken to Judicial Review in 2014/15 and the initial judgment was in favour of the care homes, As at 31<sup>st</sup> March 2015 the Council had appealed against the judgment which is expected to be resolved in 2015/16.

#### Material events after reporting date

There are none to report.

#### Links to Other Financial information

The Statement of Accounts is a key financial document published by the Council. The Council's website contains the Statement of Accounts for previous years and a range of additional financial information:

Link: <http://www.torbay.gov.uk/financialservices>.

All financial reports such as monitoring reports and outturn reports are reported on a regular basis to Council Committees.

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

#### Glossary

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

#### Signed by

Martin Phillips BA CPFA  
Chief Finance Officer  
Torbay Council  
12th June 2015

## **STATEMENT OF ACCOUNTS 2014/15**

## STATEMENT OF ACCOUNTS 2014/15

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## **FINANCIAL CERTIFICATES**

The Statement of Responsibilities for the Statement of Accounts

### **The Council's Responsibilities**

The Council is required:-

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

### **Audit Committee Approval of the Statement of Accounts 2014/15**

I confirm that the Council completed its approval process of the Statement of Accounts 2014/2015 on the 29<sup>th</sup> July 2015 at a meeting of the Council's Audit Committee.

Councillor

Chairman of Audit Committee

29th July 2015

### **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 is set out on pages 21 to page 97 and has been prepared in accordance with the accounting policies which are set out, if significant, on pages 84 to 94. In my opinion it is a true and fair view of the financial position of the Council at 31st March 2015 and its income and expenditure for the year ended 31st March 2015.

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

The Statement of Accounts 2014/15 were authorised for issue on the 12<sup>th</sup> June 2015. This is also the date up to which events after the balance sheet date have been considered.

Martin Phillips BA CPFA  
Chief Finance Officer  
12<sup>th</sup> June 2015

The Statement of Accounts 2014/15 were authorised for approval by Members on the 29th July and for publication once the audit opinion has been received, which will be before the statutory deadline of the 30<sup>th</sup> September 2015. This is also the date up to which events after the balance sheet date will be considered.

Martin Phillips BA CPFA  
Chief Finance Officer  
29th July 2015

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TORBAY COUNCIL**

To follow on completion of external audit





## Core Financial Statements

### Movement in Reserves Statement

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

<b>2013/14 Restated</b>	<b>General Fund Balance £m</b>	<b>Earmarked General Fund Reserves £m Note 8</b>	<b>Capital Receipts Reserve £m</b>	<b>Capital Grants Unapplied £m Note 22</b>	<b>Total Usable Reserves £m Note 22</b>	<b>Unusable Reserves £m Note 23</b>	<b>Total Council Reserves £m</b>
<b>Balance at 31st March 2013 brought forward</b>	<b>4.4</b>	<b>29.9</b>	<b>0.7</b>	<b>11.7</b>	<b>46.7</b>	<b>70.0</b>	<b>116.7</b>
<b>Movement in Reserves during 2013/14</b>							
Surplus or (deficit) on provision of services	(31.3)	-	-	-	(31.3)	-	(31.3)
Other Comprehensive Expenditure and Income (see C I&E Statement)	-	-	-	-	-	16.3	16.3
<b>Total Comprehensive Expenditure and Income</b>	<b>(31.3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(31.3)</b>	<b>16.3</b>	<b>(15.0)</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	35.4	-	1.1	(1.3)	35.2	(35.2)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>4.1</b>	<b>-</b>	<b>1.1</b>	<b>(1.3)</b>	<b>3.9</b>	<b>(18.9)</b>	<b>(15.0)</b>
Transfers to/from Earmarked Reserves (Note 8)	(4.1)	4.1	-	-	-	-	-
<b>Increase/(Decrease) in Year</b>	<b>0</b>	<b>4.1</b>	<b>1.1</b>	<b>(1.3)</b>	<b>3.9</b>	<b>(18.9)</b>	<b>(15.0)</b>
<b>Balance at 31st March 2014 carried forward</b>	<b>4.4</b>	<b>34.0</b>	<b>1.8</b>	<b>10.4</b>	<b>50.6</b>	<b>51.1</b>	<b>101.7</b>

## Movement in Reserves Statement

2014/15	General Fund Balance £m	Earmarked General Fund Reserves £m Note 8	Capital Receipts Reserve £m	Capital Grants Unapplied £m Note 22	Total Usable Reserves £m Note 22	Unusable Reserves £m Note 23	Total Council Reserves £m
<b>Balance at 31st March 2014 brought forward</b>	<b>4.4</b>	<b>34.0</b>	<b>1.8</b>	<b>10.4</b>	<b>50.6</b>	<b>51.1</b>	<b>101.7</b>
<b>Movement in Reserves during 2014/15</b>							
Surplus or (deficit) on provision of services	(17.1)	-	-	-	(17.1)	0	(17.1)
Other Comprehensive Expenditure and Income (see C I&E Statement)	-	-	-	-	-	(42.0)	(42.0)
<b>Total Comprehensive Expenditure and Income</b>	<b>(17.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17.1)</b>	<b>(42.0)</b>	<b>(59.1)</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	14.0	-	1.6	(5.2)	10.4	(10.4)	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(3.1)</b>	<b>-</b>	<b>1.6</b>	<b>(5.2)</b>	<b>(6.7)</b>	<b>(52.4)</b>	<b>(59.1)</b>
Transfers to/from Earmarked Reserves (Note 8)	3.1	(3.1)	-	-	0	0	0
<b>Increase/(Decrease) in Year</b>	<b>0</b>	<b>(3.1)</b>	<b>1.6</b>	<b>(5.2)</b>	<b>(6.7)</b>	<b>(52.4)</b>	<b>(59.1)</b>
<b>Balance at 31st March 2015 carried forward</b>	<b>4.4</b>	<b>30.9</b>	<b>3.4</b>	<b>5.2</b>	<b>43.9</b>	<b>(1.3)</b>	<b>42.6</b>

## Comprehensive Income and Expenditure Statement

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

2013/14 Restated			2014/15				
Gross Exp £m	Gross Income £m	Net Exp £m	Services	Note	Gross Exp	Gross Income £m	Net Exp £m
3.3	(2.1)	1.2	Central Services to the Public		3.1	(2.3)	<b>0.8</b>
13.9	(2.2)	11.7	Cultural and Related Services		11.0	(1.8)	<b>9.2</b>
20.2	(4.1)	16.1	Environmental and Regulatory Services		19.8	(5.3)	<b>14.5</b>
7.1	(3.0)	4.1	Planning Services		6.3	(1.6)	<b>4.7</b>
104.6	(61.7)	42.9	Childrens and Education Service		97.2	(54.7)	<b>42.5</b>
17.6	(9.2)	8.4	Highways and Transport Service		21.3	(9.4)	<b>11.9</b>
75.0	(69.9)	5.1	Housing Service		74.0	(69.6)	<b>4.4</b>
45.8	(3.6)	42.2	Adult Social Care		45.5	(4.9)	<b>40.6</b>
7.3	(7.9)	(0.6)	Public Health		8.1	(8.6)	<b>(0.5)</b>
2.2	(0.1)	2.1	Corporate and Democratic Core		2.3	0	<b>2.3</b>
4.4	(2.9)	1.5	Non distributed costs		2.4	(2.9)	<b>(0.5)</b>
301.4	(166.7)	134.7	<b>Cost Of Services</b>		<b>291.0</b>	<b>(161.1)</b>	<b>129.9</b>
1.4	(1.5)	(0.1)	Other Operating Income & Expenditure		1.1	(1.8)	<b>(0.7)</b>
21.1	0	21.1	Transfer of schools to academies	1 & 11	10.5	0	<b>10.5</b>
13.0	(1.9)	11.1	Financing and Investment Income and Expenditure	9	11.9	(1.8)	<b>10.1</b>
0	(135.5)	(135.5)	Taxation and Non-Specific Grant Income	10	0	(132.7)	<b>(132.7)</b>
		31.3	<b>(Surplus)/Deficit on Provision of Services</b>				<b>17.1</b>
		(4.9)	(Surplus)/Deficit on revaluation on Non Current Assets	23			<b>(3.4)</b>
		0.5	(Surplus)/Deficit on revaluation of available for sale financial assets	See * below			<b>1.5</b>
		(11.9)	Remeasurement of net defined pension liabilities	38			<b>43.9</b>
		(16.3)	<b>Other Comprehensive Income and Expenditure</b>				<b>42.0</b>
		15.0	<b>Total (Surplus)/Deficit in Comprehensive Income and Expenditure</b>				<b>59.1</b>

Note \*: There is potential for this item within Other Comprehensive Income and Expenditure (OCIE) to also be within Surplus/Deficit on the Provision of Services in a subsequent year.



## Balance Sheet

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

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

31 <sup>st</sup> March 2013 Restated £m	31 <sup>st</sup> March 2014 Restated £m		Note	31 <sup>st</sup> March 2015 £m
306.8	283.8	Property, Plant & Equipment	11	<b>275.8</b>
25.4	26.3	Heritage Assets	12	<b>27.4</b>
3.9	4.0	Investment Property		<b>4.1</b>
0.4	0.2	Intangible Assets		<b>0.4</b>
8.1	2.6	Long Term Investments	15	<b>16.1</b>
3.0	3.2	Long Term Debtors		<b>3.1</b>
347.6	320.1	<b>Non Current (Long Term) Assets</b>		<b>326.9</b>
77.5	67.6	Short Term Investments	15	<b>54.3</b>
2.0	1.5	Assets Held for Sale		<b>1.1</b>
0.1	0.1	Inventories		<b>0.1</b>
17.0	16.2	Short Term Debtors	16	<b>17.5</b>
0.1	0	Other Short Term Assets		<b>0</b>
2.1	6.9	Cash and Cash Equivalents	17	<b>2.5</b>
98.8	92.3	<b>Current Assets</b>		<b>75.5</b>
(1.9)	(1.3)	Short Term Borrowing	20	<b>(1.3)</b>
(1.2)	(1.3)	Other Short Term Liabilities	21	<b>(1.3)</b>
(22.9)	(23.3)	Short Term Creditors (inc Receipts in Advance)	18	<b>(25.4)</b>
(1.7)	(2.0)	Provisions	19	<b>(1.8)</b>
(3.6)	(1.4)	Capital Grants/Contributions: Receipts in Advance		<b>(0.1)</b>
(4.3)	(0.5)	Cash and Cash Equivalents	17	<b>(1.3)</b>
(35.6)	(29.8)	<b>Current Liabilities</b>		<b>(31.2)</b>

31 <sup>st</sup> March 2013	31 <sup>st</sup> March 2014		Notes	31 <sup>st</sup> March 2015
	<b>£m</b>			<b>£m</b>
(1.5)	(3.3)	Long Term Creditors		<b>(3.6)</b>
(0.2)	(0.2)	Provisions	19	<b>(0.1)</b>
(148.3)	(138.2)	Long Term Borrowing	20	<b>(138.3)</b>
(18.8)	(18.3)	Other Long Term Liabilities	21	<b>(18.1)</b>
(125.3)	(120.2)	Pension Liability	38	<b>(167.8)</b>
0	(0.7)	Capital Grants/Contributions: Receipts in Advance		<b>(0.7)</b>
(294.1)	(280.9)	<b>Long Term Liabilities</b>		<b>(328.6)</b>
116.7	101.7	<b>Net Assets</b>		<b>42.6</b>
46.7	50.6	Usable reserves	22	<b>43.9</b>
70.0	51.1	Unusable Reserves	23	<b>(1.3)</b>
116.7	101.7	<b>Total Reserves</b>		<b>42.6</b>
	M Phillips BA CPFA Chief Finance Officer 12 <sup>th</sup> June 2015			

## Cash Flow Statement

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

2013/14 Restated				2014/15	
£m	£m		note	£m	£m
	(31.3)	Net surplus or (deficit) on the provision of services, including £6.1m interest paid and (£0.8m) interest received.			(17.1)
	45.4	Adjustments to net surplus or deficit on the provision of services for non cash movements	See note below		24.0
	(1.7)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities including proceeds of investments and disposal of assets			(2.2)
	12.4	<b>Net cash flows from Operating Activities</b>			4.7
		<b>Investing Activities:</b>			
(10.1)		Purchase of property, plant and equipment, investment property, heritage and intangible assets		(12.2)	
1.4		Proceeds from the sale of property, plant and equipment, investment property and intangible assets		1.8	
15.3	6.6	Proceeds from short-term and long-term investments		(1.4)	(11.8)
		<b>Financing Activities</b>			
(0.4)		Cash payments for the reduction of the outstanding liabilities relating to transferred debt and on-balance sheet PFI contracts		(0.4)	
0		Council Tax and NNDR adjustments		2.3	
(10.0)	(10.4)	Repayments of short- and long-term borrowing		0	1.9
	8.6	<b>Net increase or (decrease) in cash and cash equivalents</b>			(5.2)

2013/14		2014/15	
£m		Notes	£m
(2.2)	Cash and cash equivalents * at the beginning of the reporting period	17	6.4
6.4	<b>Cash and cash equivalents at the end of the reporting period</b>	17	1.2
8.6	<b>Net increase or (decrease) in cash and cash equivalents</b>		(5.2)
<ul style="list-style-type: none"> <li>Cash equivalents are short term cash investments that are held for the purpose of meeting short term cash commitments rather than for investment purposes.</li> </ul>			
<p><b>Note: Adjustments to net surplus or deficit on the provision of services for non cash movements</b></p> <p>The table below lists the adjustments required in the cash flow statement to reverse non cash items accounted for in the Provision of Services in the Comprehensive Income and Expenditure Account</p>			
18.0	Depreciation, Impairment & downward valuations		11.6
0.2	Amortisation		0.2
(0.5)	Increase/(Decrease) in Creditors		1.0
(0.6)	(Increase)/Decrease in Debtors including impairment for bad debts		(2.2)
6.9	Movement in pension liability		3.9
21.9	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised		11.4
(0.5)	Other non-cash items charged to the net surplus or deficit on the provision of services		(1.9)
45.4	<b>Total</b>		24.0

## Notes to the Core Financial Statements

### 1. Changes in Accounting Policy

CIPFA/LASAAC introduced a new Appendix E in the 2014/15 Code setting out the accounting treatment for local authority maintained schools. The principle elements of Appendix E to the 2014/15 Code are:-

- Local authority maintained schools are capable of being treated as entities for control purposes
- For those schools as entities CIPFA/LASAAC has decided that the balance of control under IFRS 10 Consolidated Financial Statements lies with the local authorities and therefore the transactions of schools as entities should be reported within the local authority boundary.
- The adaption of IFRS10 and consequently IAS27 Separate Financial Statements requires that schools transactions (i.e. those transactions within the control of schools) should be recognised within the single entity financial statements of local authorities.

CIPFA issued an update to the 2014/15 Code which included transitional provisions providing for schools' non current assets being recognised for the first time following the change in accounting policy. The transitional provision permits the valuation (in accordance with the Code) to be treated at a deemed cost.

In addition CIPFA have issued the following guidance for clarification:-

- Technical Information Note 14 (01)- Relationship between schools as entities and the accounting requirements for non-current assets used by schools
- Informal commentary and clarification of the relationship between schools as entities and the recognition of non current assets used by schools.
- LAAP Bulletin 101 Accounting for Non Current Assets used by Local Authority Maintained Schools.

The council's accounting policy has been updated to reflect the above changes. The main change is the recognition on the council's balance sheet of land and buildings at voluntary aided, voluntary controlled and foundation schools. The table below lists the main changes.

Type of school	Previous Accounting Policy	Updated Accounting Policy
Community schools land and buildings	On Balance Sheet	On Balance Sheet
Voluntary Aided school buildings	Off Balance Sheet	On Balance Sheet
Voluntary Aided school land (excluding playing fields)	Off Balance Sheet	Off Balance Sheet
Voluntary Controlled school buildings	On Balance Sheet	On Balance Sheet
Voluntary Controlled school land (excluding playing fields)	On Balance Sheet	Off Balance Sheet
Voluntary Controlled and Aided playing fields	On Balance Sheet	On Balance Sheet
Foundation school land and buildings	Off Balance Sheet	On Balance Sheet

The impact on the financial statements is as below. There is no impact on Council Tax payable.

	2013/14	2013/14	Variance	Reason
	£m	restated £m	£m	
<b>Comprehensive Income and Expenditure Account</b> <b>Cost of service - Children's and Education Service net expenditure</b>	43.3	42.9	(0.4)	Depreciation and impairment charges following recognition of assets on the council's balance sheet, off-set by reversing Revenue Expenditure Funded from Capital under Statute entry.
<b>Comprehensive Income and Expenditure Account</b> <b>Provision of service - Derecognition of voluntary aided and controlled schools land and buildings</b>	0	5.9	5.9	Derecognition of voluntary aided schools converting to academy status and de recognition of voluntary controlled school land due to change in accounting policy
<b>Total (surplus)/deficit in comprehensive income and expenditure</b>	9.5	15.0	5.5	As above
<b>Movement in Reserves statement – unusable reserves</b>	1.8	51.1	49.3	Recognition/de-recognition of schools in non current assets, reversal of entries in the comprehensive income and expenditure account permitted under statute
<b>Balance Sheet – Unusable reserves</b>	1.8	51.1	49.3	As above
<b>Balance Sheet – Property, plant and equipment</b>	234.5	283.8	49.3	Recognition/ de-recognition of schools and depreciation/impairment charges

Supporting notes to the accounts have been updated as required.

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

There are changes to the following standards that could apply to the 2015/16 accounts which may result in a few additional minor disclosures, however none is likely to have a significant impact on the Council.

- IFRS 13 Fair Value Measurement (May 2011);
- Annual Improvements to IFRSs (2011 – 2013 Cycle)
- IFRIC 21 Levies.

The updates to in IFRS13 change the definition of fair value and introduce a new term 'current value'. The only assets that will require a change in their valuation method, and changes to the valuer's approach to the valuation of these assets, will be surplus assets, assets held for sale and investment properties. Under the revised definition of fair value these assets will be valued at "highest and best use", which is likely to increase the value of these properties however the changes are not expected to be material.

## 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 39, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements, where others may have made a different judgement, made in the statement of accounts are:

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

of its control including its residual interest in asset and its control over school admissions and staff employment over these assets is as follows:

- Community Schools (8 schools) – assets recognised on balance sheet
- Voluntary Controlled schools (3 schools) – building, but not land, recognised on balance sheet
- Voluntary Aided Schools (3 schools) – building, but not land, recognised on balance sheet
- Foundation Schools (2 schools) - assets recognised on balance sheet
- Academy Schools - assets not recognised on balance sheet

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

The Comprehensive Income and Expenditure statement does not include any income or for expenditure associated with Academy schools after date of transfer.

- The Council has recognised a long term liability for the annual local government reorganisation discretionary pension payment to Devon County Council. This payment is invoiced for in the year that the County Council makes payments to its pensioners.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances can't be determined with certainty, actual results could be materially different from the assumptions and estimates. There were no changes in accounting estimates in 2014/15 or expected in future years.

The item in the Council's balance sheet at 31st March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:



Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Pension Liability Value 31/3/15 £168m</b>	
<p>The Council's liability as at 31<sup>st</sup> March is based on a number of complex judgements relating to the discount rate used, the rate at which salaries may change, changes in retirement dates, mortality rates and expected return on pension fund assets</p> <p>A firm of pension actuaries are used to provide this information and every three years there is a detailed actuarial review of the fund.</p> <p>The value of pension assets is estimated (by the actuary) based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until sometime later, may give a different value of pension assets, but this difference is not considered to be material.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a future 0.1% increase in the discount rate assumption would result in a change in the (gross) pension liability of £6m. Similarly a change in the mortality assumption of 1 year would result in a change of £15m. However, the assumptions interact in complex ways.</p> <p>The actuary advised that, during 2014/15, the net pensions' liability had increased by £48m. In part this was a result of estimates being corrected as a result of "experience" updating of actuarial assumptions. In particular in 2014/15 there was a reduction in the discount rate from 4.5% to 3.3%.</p> <p>A table on sensitivity of assumptions is included in the Pensions Note 38.</p>

## 5. Material Items of Income And Expense

The Council's pension liability as at 31<sup>st</sup> March 2015 is assessed at £168m, a £48m increase, primarily due to actuarial "remeasurements" of the pension scheme liabilities and assets. In particular the actuary changed the discount rate (linked to corporate bond rates such as Merrill Lynch AA rated corporate bond) in the liability calculation to 3.3% from 4.5% which caused the significant change in liability.

## 6. Events after the Reporting Period

Since 31<sup>st</sup> March 2015 to the date the Chief Financial officer authorised the accounts for issue (12th June 2015) there are no significant events to note. Events taking place after this date are not reflected in the financial statements or notes.

## 7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

Note: Other includes: Accumulated Absences Adjustment Account and Collection Fund Adjustment Account

2013/14 restated						2014/15					
Useable Reserves			Unusable Reserves			Useable Reserves			Unuseable Reserves		
General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other	General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
(18.0)			18.0			(11.6)			11.6		
(0.2)			0.2			(0.2)			0.2		
(4.4)			4.4			(6.7)			6.7		
(22.0)			22.0			(11.4)			11.4		
0.1	-	-	(0.1)	-	-	0.1	-	-	(0.1)	-	-

Useable Reserves			Unusable Reserves				Useable Reserves			Unuseable Reserves		
General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other		General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other
£m	£m	£m	£m	£m	£m		£m	£m	£m	£m	£m	£m
(44.5)	-	-	44.5	-	-	b/f	(29.8)	-	-	29.8	-	-
						<u>Other</u>						
0.1			(0.1)			Movement in the fair value of Investment Properties	0.1			(0.1)		
(0.2)			0.2			Movement in the market value of Assets Held for Sale	0			0		
						<u>Items relating to capital financing applied in the year</u>						
5.5			(5.5)			Capital Grants and Contributions Applied	6.3			(6.3)		
						<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement (CI&amp;E):</b>						
						<u>Items relating to capital financing applied in the year</u>						
4.6			(4.6)			Provision for the financing of capital investment	4.6			(4.6)		
1.4			(1.4)			Capital expenditure charged against the General Fund	1.8			(1.8)		
(33.1)	-	-	33.1	-	-	c/f	(17.0)	-	-	17.0	-	-

Useable Reserves			Unusable Reserves				Useable Reserves			Unuseable Reserves		
General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other		General Fund	Capital Receipts	Capital Grants	CAA	Pension	Other
£m	£m	£m	£m	£m	£m		£m	£m	£m	£m	£m	£m
(33.1)	-	-	33.1	-	-	b/f	(17.0)	-	-	17.0	-	-
						<b>Adjustments involving Capital Grant Unapplied Account</b>						
5.5	-	(5.5)	-			Capital Grants & Contributions unapplied credited to the CI&E Statement	2.3		(2.3)			
-	-	6.8	(6.8)			Application of (prior year) Grants to capital financing applied in the year transferred to the Capital Adjustment Account			7.5	(7.5)		
						<b>Adjustments involving the Capital Receipts Reserve:</b>						
1.4	(1.4)	-	-			Transfer of sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	1.7	(1.7)				
-	0.3	-	(0.3)			Use of the Capital Receipts Reserve to finance new capital expenditure applied in the year		0.1		(0.1)		
						<b>Adjustments involving the Pensions Reserve:</b>						
(26.2)	(1.1)	1.3	26.0	-	-	c/f	(13.0)	(1.6)	5.2	9.4	-	-

Useable Reserves			Unusable Reserves					Useable Reserves			Unuseable Reserves		
General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other		General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other	
£m	£m	£m	£m	£m	£m		£m	£m	£m	£m	£m	£m	
(26.2)	(1.1)	1.3	26.0	-	-	b/f	(13.0)	(1.6)	5.2	9.4	-	-	
(13.3)	-	-	-	13.3		Reversal of items relating to retirement benefits debited or credited to the CI&E Statement (see Note 38)	(10.9)				10.9		
6.5	-	-	-	(6.5)		Employer's pensions contributions and direct payments to pensioners payable in the year	7.0				(7.0)		
						<b>Adjustments involving the Collection Fund Adjustment Account:</b>							
(2.9)	-	-			2.9	Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	2.6					(2.6)	
						<b>Adjustment involving the Accumulated Absences Account</b>							
(35.9)	(1.1)	1.3	26.0	6.8	2.9	c/f	(14.3)	(1.6)	5.2	9.4	3.9	(2.6)	

Useable Reserves						Unusable Reserves						Useable Reserves						Unuseable Reserves					
General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other		General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other	General Fund	Capital Receipts	Capital Grants Unappl'd	CAA	Pension	Other					
£m	£m	£m	£m	£m	£m		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m					
(35.9)	(1.1)	1.3	26.0	6.8	2.9	b/f	(14.3)	(1.6)	5.2	9.4	3.9	(2.6)											
0.5	-	-			(0.5)	Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.3					(0.3)											
(35.4)	(1.1)	1.3	26.0	6.8	2.4	<b>Total Adjustments per MIRS</b>	14.0	(1.6)	5.2	9.4	3.9	(2.9)											
						<i>Memo items:-</i>																	
						<i>Surplus/(Deficit) on Provision of Services</i>	(17.1)																
						<i>Movement in earmarked reserves</i>	3.1																
				(11.9)		<i>Other Comprehensive Income and Expenditure: Remeasurement of net defined pension liability</i>					43.9												
			(3.4)			<i>Other movement on the Capital Adjustment Account - Adjusting amounts written out of the revaluation reserve to the Capital Adjustment Account</i>				(1.5)													
(35.4)			22.6	(5.1)	2.4	<b>Total Movement in year (see note 23)</b>	0			7.9	47.8												

## 8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

	Balance at 31 <sup>st</sup> March 2013 £m	Transfer Out 2013/14 £m	Transfer In 2013/14 £m	Balance at 31 March 2014 £m	Transfer Out 2014/15 £m	Transfer In 2014/15 £m	Balance at 31 March 2015 £m
Reserves:-							
earmarked for General Expenditure	3.4	(0.6)	1.5	<b>4.3</b>	(1.1)	0	<b>3.2</b>
earmarked for specific issues	8.7	(1.0)	2.1	<b>9.8</b>	(3.4)	3.9	<b>10.3</b>
to reflect timing of expenditure	7.0	(3.0)	3.2	<b>7.2</b>	(3.6)	1.7	<b>5.3</b>
to support Capital expenditure	2.2	(0.8)	1.1	<b>2.5</b>	(1.5)	1.7	<b>2.7</b>
School Related Reserves	0.5	0	0	<b>0.5</b>	0	0	<b>0.5</b>
Schools' Balances (held under a delegation scheme)	3.2	(3.2)	2.8	<b>2.8</b>	(2.8)	2.9	<b>2.9</b>
Ring Fenced	4.9	(2.3)	4.3	<b>6.9</b>	(2.4)	1.5	<b>6.0</b>
Total	29.9	(10.9)	15.0	<b>34.0</b>	(14.8)	11.7	<b>30.9</b>

## 9. Financing and Investment Income and Expenditure

2013/14 restated £m		2014/15 £m
7.5	Interest payable and similar charges	<b>6.6</b>
5.5	Net interest on net defined pension liability	<b>5.2</b>
(1.3)	Interest receivable and similar income	<b>(1.0)</b>
(0.4)	Income and expenditure in relation to investment properties and changes in their fair value	<b>(0.3)</b>
(0.2)	Gain from Devonwide NNDR Pool	<b>(0.4)</b>
11.1	<b>Total</b>	<b>10.1</b>

## 10. Taxation and Non Specific Grant Income

2013/14		2014/15
restated		£m
£m		
(54.4)	Council tax income	<b>(53.5)</b>
(28.3)	NNDR Income	<b>(26.1)</b>
2.9	Collection Fund Adjustment Account	<b>(2.6)</b>
(48.6)	Non-ringfenced government grants	<b>(41.9)</b>
(7.1)	Capital grants and contributions	<b>(8.6)</b>
(135.5)	Total	<b>(132.7)</b>

## 11. Property, Plant and Equipment

### Measurement Basis

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

- Existing Use Value for most categories of Property Plant and Equipment (P,P&E)
- Depreciated Replacement Cost for assets of a specialised nature with no readily identifiable market
- Depreciated Historical Cost for Community, Infrastructure and Vehicles, Plant and Equipment
- Historical Cost for Assets under Construction

### Depreciation method

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

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

### Useful lives used

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

### Movements on Balances

Reconciliation of movements in 2014/15, and the prior year 2013/14, in Property, Plant and Equipment by category of assets is shown in the tables below:



2013/14 Restated								
	Other Land & Buildings	Vehicles, Plant & Equipment	Infra - structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	PFI Assets in P, P & E
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Cost or Valuation</b>								
<b>As at 1<sup>st</sup> April 2013</b>	<b>225.9</b>	<b>16.8</b>	<b>94.6</b>	<b>7.0</b>	<b>0.1</b>	<b>0.8</b>	<b>345.2</b>	<b>23.8</b>
Additions	4.6	0.3	3.4	1.6	-	1.6	<b>11.5</b>	0.3
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	1.3	-	-	-	0.2	-	<b>1.5</b>	-
Revaluation Increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(11.5)	(0.1)	-	-	-	(0.2)	<b>(11.8)</b>	-
Derecognition – Disposals	(22.6)	(0.1)	-	-	-	-	<b>(22.7)</b>	-
Assets reclassified (to)/from Held for Sale	(0.1)	-	-	-	(0.3)	-	<b>(0.4)</b>	-
Other movements in Cost or Valuation	-	-	-	-	-	-	<b>0</b>	-
<b>As at 31<sup>st</sup> March 2014</b>	<b>197.6</b>	<b>16.9</b>	<b>98.0</b>	<b>8.6</b>	<b>0</b>	<b>2.2</b>	<b>323.3</b>	<b>24.1</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>As at 1<sup>st</sup> April 2013</b>	<b>(8.4)</b>	<b>(11.3)</b>	<b>(18.6)</b>	<b>(0.1)</b>	<b>0</b>	<b>0</b>	<b>(38.4)</b>	<b>0</b>
Depreciation charge	(3.3)	(1.4)	(2.9)	-	-	-	(7.6)	(0.4)
Depreciation written out to the Revaluation Reserve	3.9	-	-	-	-	-	3.9	0
Depreciation written out to Surplus/Deficit Provision on Services	1.3	-	-	-	-	-	1.3	0
Derecognition – Disposals	1.1	0.2	-	-	-	-	1.3	0
<b>As at 31<sup>st</sup> March 2014</b>	<b>(5.4)</b>	<b>(12.5)</b>	<b>(21.5)</b>	<b>(0.1)</b>	<b>0</b>	<b>0</b>	<b>(39.5)</b>	<b>(0.4)</b>
<b>Net Book Value</b>								
<b>As at 31<sup>st</sup> March 2014</b>	<b>192.2</b>	<b>4.4</b>	<b>76.5</b>	<b>8.5</b>	<b>0</b>	<b>2.2</b>	<b>283.8</b>	<b>23.7</b>
As at 31 <sup>st</sup> March 2013	217.5	5.5	76.0	6.9	0.1	0.8	306.8	23.8

2014/15 restated	Other Land and Buildings	Vehicles, Plant & Equipm't	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipm't	PFI Assets in P, P & E
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Cost or Valuation</b>								
<b>As at 1<sup>st</sup> April 2014</b>	<b>197.6</b>	<b>16.9</b>	<b>98.0</b>	<b>8.6</b>	<b>0</b>	<b>2.2</b>	<b>323.3</b>	<b>24.1</b>
Additions	3.7	0.7	5.9	0.1	0	1.8	12.2	0
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	1.0	0	0	0	0.1	0	1.1	(0.3)
Revaluation Increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(4.4)	0	0	(0.1)	0	0	(4.5)	0
Derecognition - Disposals	(10.7)	(0.4)	0	0	0	0	(11.1)	0
Assets reclassified (to)/from Held for Sale	(0.4)	0	0	0	(0.1)	0	(0.5)	0
Other movements in Cost or Valuation	0	0	2.5	(1.2)	0.5	(1.7)	0.1	0
<b>As at 31<sup>st</sup> March 2015</b>	<b>186.8</b>	<b>17.2</b>	<b>106.4</b>	<b>7.4</b>	<b>0.5</b>	<b>2.3</b>	<b>320.6</b>	<b>23.8</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>As at 1st April 2014</b>	<b>(5.4)</b>	<b>(12.5)</b>	<b>(21.5)</b>	<b>(0.1)</b>	<b>0</b>	<b>0</b>	<b>(39.5)</b>	<b>(0.4)</b>
Depreciation charge	(3.2)	(1.2)	(3.1)	(0.2)	0	0	(7.7)	(0.3)
Depreciation written out to the Revaluation Reserve	1.3	0	0	0	0	0	1.3	0.1
Revaluation Increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	0.5	0	0	0	0	0	0.5	0.2
Derecognition - Disposals	0.2	0.4	0	0	0	0	0.6	0
Other movements in Depreciation and Impairment	0	0	0	0	0	0	0	0
<b>As at 31st March 2015</b>	<b>(6.6)</b>	<b>(13.3)</b>	<b>(24.6)</b>	<b>(0.3)</b>	<b>0</b>	<b>0</b>	<b>(44.8)</b>	<b>(0.4)</b>
<b>Net Book Value:-</b>								
<b>As at 31<sup>st</sup> March 2015</b>	<b>180.2</b>	<b>3.9</b>	<b>81.8</b>	<b>7.1</b>	<b>0.5</b>	<b>2.3</b>	<b>275.8</b>	<b>23.4</b>
As at 31 <sup>st</sup> March 2014	192.2	4.4	76.5	8.5	0	2.2	283.8	23.7

### Contractual Commitments for the acquisition of Property, Plant and Equipment as at 31<sup>st</sup> March 2015

The significant commitments on capital schemes with a value greater than £0.5m together with the likely year of spend are shown in the table below. Similar commitments for the previous financial year were £22.3m.

Contract	Purpose	Total Commitments £m	2015/16 £m	2016/17 £m
	<b>Expenditure on Council Assets:</b>			
<b>Schools</b>				
Whiterock Primary Expansion	Increase pupil accommodation and improve facilities	1.9	1.9	0
<b>Transport</b>				
Western Corridor, Paignton	Road widening and improvement scheme	0.8	0.8	0
	<b>Expenditure on Assets owned by other bodies or individuals:</b>			
<b>Transport</b>				
South Devon Link Road	Major investment to provide new road to alleviate congestion and ease traffic flow to and from Torbay.	16.1	11.7	1.5
	<b>Total Significant Commitments</b>	<b>18.8</b>	<b>14.4</b>	<b>1.5</b>

### Revaluations

The Council's assets are regularly revalued, (at least once during a five year period), by the Council's appointed external qualified valuer - see accounting policies. The effective date of revaluation is usually the 1<sup>st</sup> April of the year of the revaluation. The only class of asset that has significant revaluations is "Other Land and Buildings" which is valued at existing use.

Valued at fair value as at	Other Land and Buildings £m
31 March 2015	56.8
31 March 2014	45.5
31 March 2013	43.4
31 March 2012	30.3
31 March 2011	10.8
Total Cost or Valuation	186.8

## 12. Heritage Assets

The value of the Council's heritage assets are reported in the balance sheet at an insurance valuation. Where it is not practical to obtain an insurance valuation the asset is measured at historical cost (usually nil). Heritage Assets, by their nature have a long life, so have not been depreciated.

The insurance valuations for heritage assets classified as property are updated every year by

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

The following table shows the reconciliation of the carrying value of Heritage Assets held by the Council.

	Fine Art Collection	Mayoral Regalia	Heritage Property	Assets Under Construction	Total Assets
Valuation	£m	£m	£m	£m	£m
<b>31<sup>st</sup> March 2013</b>	5.8	0.2	15.5	3.9	<b>25.4</b>
<b>Additions</b>	0	0	1.3	0	<b>1.3</b>
<b>Reclassifications</b>	0	0	3.9	(3.9)	<b>0</b>
<b>Impairment losses/(reversals) recognised in Revaluation Reserve</b>	0	0	(0.4)	0	<b>(0.4)</b>
<b>31<sup>st</sup> March 2014</b>	<b>5.8</b>	<b>0.2</b>	<b>20.3</b>	<b>0</b>	<b>26.3</b>
<b>Additions</b>	0	0	0.1	0	<b>0.1</b>
<b>Revaluation increases/(decreases) recognised in the Revaluation Reserve</b>	0	0	1.0	0	<b>1.0</b>
<b>31<sup>st</sup> March 2015</b>	<b>5.8</b>	<b>0.2</b>	<b>21.4</b>	<b>0</b>	<b>27.4</b>

#### Fine Arts Collection

Includes exhibits held at Torre Abbey. The valuation was undertaken by external valuers, Bearnese, in 2010. The collection includes William Holman Hunt’s “The Children’s Holiday” which has an insurance valuation of £1.2m. There are a large number of exhibits at Torre Abbey that are not included in the valuation due to their low item value. Further details of the exhibits included in this collection and visiting information are available on the council’s website at:-

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

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

<http://www.torbay.gov.uk/index/yourcouncil/financialservices/heritageassets.doc>

The Council is in the process of transferring the information it holds on the Torre Abbey exhibits to a new museum database.

Also included in this classification is fine art from Oldway Mansion and Torquay Town Hall, which has a combined insurance valuation of £0.4m. This valuation was given by external valuers, Bearnese, in 2004.

#### Mayoral Regalia

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

#### Heritage Property

Most of these assets are not insured so are held at historic cost, for example the D Day Embarkation Ramps. Of the property assets with an insurance valuation, Torre Abbey Mansion is the most significant being valued at £17.6m. The Abbey reopened in 2013 after an extensive refurbishment.

The Council also has properties that although culturally and historically important, are being used for operational purposes. As this purpose is more relevant to users of the financial statements these assets have been classified under the heading 'Property, Plant and Equipment' on the balance sheet. For example these assets include Torquay Town Hall and Electric House which are used as office accommodation. The Council uses an external RICS qualified valuer to provide property reinstatement valuations for insurance purposes.

### 13. Financial Instruments

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

31 <sup>st</sup> March 2014			31 <sup>st</sup> March 2015	
Long Term £m	Short Term £m		Long Term £m	Short Term £m
		<b>Investments</b>		
0	37.3	Loans and receivables	<b>15.0</b>	<b>24.2</b>
2.6	0.1	Available-for-sale financial assets	<b>1.1</b>	<b>0.1</b>
0	30.2	Financial assets at fair value through profit and loss	<b>0</b>	<b>30.0</b>
2.6	67.6	<b>Total investments</b>	<b>16.1</b>	<b>54.3</b>
		<b>Cash &amp; Cash Equivalents</b>		
0	1.3	Cash in hand and Bank (net)	<b>0</b>	<b>0.6</b>
0	5.1	Loans and receivables	<b>0</b>	<b>0.6</b>
0	6.4	<b>Total Cash &amp; Equivalents</b>	<b>0</b>	<b>1.2</b>

31 <sup>st</sup> March 2014			31 <sup>st</sup> March 2015	
Long Term £m	Short Term £m		Long Term £m	Short Term £m
		<b>Debtors</b>		
3.2	11.1	Financial assets carried at contract amounts	<b>3.1</b>	<b>14.4</b>
3.2	11.1	<b>Total Debtors</b>	<b>3.1</b>	<b>14.4</b>
		<b>Borrowings/Liabilities</b>		
(138.2)	(1.3)	Financial liabilities at amortised cost	<b>(138.3)</b>	<b>(1.3)</b>
(138.2)	(1.3)	<b>Total borrowings</b>	<b>(138.3)</b>	<b>(1.3)</b>
		<b>Other Long Term Liabilities</b>		
(8.4)	(0.4)	PFI liability	<b>(7.9)</b>	<b>(0.5)</b>
(1.0)	0	Financial Guarantees	<b>(1.0)</b>	<b>0</b>
(9.4)	(0.4)	<b>Total other long term liabilities</b>	<b>(8.9)</b>	<b>(0.5)</b>
		<b>Creditors (incl. receipts in advance)</b>		
(3.3)	(23.3)	Financial liabilities carried at contract amount	<b>(3.6)</b>	<b>(25.4)</b>
(3.3)	(23.3)	<b>Total Creditors</b>	<b>(3.6)</b>	<b>(25.4)</b>
(145.1)	60.1	<b>Total All Financial Instruments</b>	<b>(131.6)</b>	<b>42.7</b>

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

Financial Instrument	Basis of measurement	Note
Investments – fixed rate	Carrying value adjusted for interest owed at year end	Investments have both fixed term and fixed interest rates
Investments – Money Market Funds	Increase in carrying value reflected in Balance Sheet and not recognised in Income & Expenditure Account until realised	Minimal balances at year end as investment realised before year end. Interest rate determinable on 1 <sup>st</sup> April.
Investments – Fund Manager	Treated as a Financial Instrument at Fair Value through Profit and Loss as the fund is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.	Fund Manager and Treasury Management advisor have confirmed that the carrying value of the fund at 31 <sup>st</sup> March is the fair value of the Fund.
Investments – Subsidiaries	Fair value of subsidiary is net equity of subsidiary unless negative where the fair value is nil.	Included Torbay Economic Development Company and English Riviera Tourism Company

Financial Instrument	Basis of measurement	Note
Investments – Other	Held at carrying value on basis of materiality	
Contractual Debt/payables	Held at invoiced or billed amount less an estimate of impairment for the uncollectability of that debt.	Excludes non contractual debt such as Council tax and NNDR
PWLB Debt	Carrying value adjusted for interest due at year end	Borrowing is both fixed term and fixed interest rates
LOBO Debt	Balance measured using the effective interest rate (if a stepped rate) or fixed rate (if a vanilla/flat rate) within the contract for the maximum life of the deal	Rate calculated over full term assuming the options within the contract are not exercised.
Financial Guarantee	Balance measured by applying a range of probabilities to the risk of the guarantee being called or payment made.	Only guarantee in this category is to Torbay Coast and Countryside Trust.
Financial Instruments under adverse economic conditions	All financial instruments assessed for impairment from economic conditions	As appropriate the impairment for contractual debt will be reviewed. The Council does not hold any investments which it has assessed to be subject to any impairment.

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

**Income, Expense, Gains and Losses**

	2013/14				2014/15			
	Financial Liabilities	Financial Assets			Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and receivables	Assets and Liabilities at Fair Value through Profit and Loss	Total	Liabilities measured at amortised cost	Loans and receivables	Assets and Liabilities at Fair Value through Profit and Loss	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Interest expense	5.7	-	-	5.7	4.8	-	-	4.8
Reductions in fair value re interest due	1.3	-	-	1.3	1.3	-	-	1.3
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>7.0</b>	-	-	<b>7.0</b>	<b>6.1</b>	-	-	<b>6.1</b>
Interest income	-	(0.6)	-	(0.6)	-	(0.3)	-	(0.3)
Increases in fair value	-	(0.2)	(0.2)	(0.4)	-	(0.2)	(0.3)	(0.5)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>(0.8)</b>	<b>(0.2)</b>	<b>(1.0)</b>	<b>-</b>	<b>(0.5)</b>	<b>(0.3)</b>	<b>(0.8)</b>
<b>Net gain/(loss) for the year</b>	<b>7.0</b>	<b>(0.8)</b>	<b>(0.2)</b>	<b>6.0</b>	<b>6.1</b>	<b>(0.5)</b>	<b>(0.3)</b>	<b>5.3</b>



### Fair Values of Assets and Liabilities

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

For PWLB debt the fair value has been assessed by using PWLB rates for new loans as at 31<sup>st</sup> March 2015, and then matched, as appropriate, to the duration on an existing maturity. No early repayment or impairment is recognised. For LOBO debt the fair value has been assessed by using a discount rate for LOBOs of similar length and structure with a comparable lender as at 31<sup>st</sup> March 2015.

For Investments, such as fixed term deposits where the rate is fixed, the fair value has been assessed by using a discount rate for deposits of similar length with a comparable lender as at 31<sup>st</sup> March 2015. For investments held in higher earning “cash” accounts the fair value is assumed to be the same as the nominal value of the deposit.

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

	31 March 2014		31 March 2015	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial Assets:				
Loans and Receivables:				
- Short Term Loans	37.4	37.5	<b>24.3</b>	<b>24.5</b>
- Long Term Loans	0	0	<b>15.0</b>	<b>15.8</b>
Financial Liabilities:				
Borrowing	(139.5)	(143.1)	<b>(139.6)</b>	<b>(171.8)</b>

The fair value of the loans and receivables (investments) is higher than the carrying amount because the Council’s portfolio of investments includes a number of fixed rate investments where the interest rate receivable is higher than the prevailing market rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2015) arising from a commitment to be paid interest by lenders above current market rates. As at 31<sup>st</sup> March there is a flat profile for interest rates in the short term therefore there is very little difference between the carrying amount and the fair value of short term loans.

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

It should be noted that the PWLB also provided a fair value of the Council’s PWLB debt as at 31<sup>st</sup> March 2015 of £183.4m (£152.3m 13/14). This is higher than the fair value PWLB amount of £158.2m (£132.8m 13/14) as the PWLB has used their “premature redemption rate of interest” to calculate fair value. This rate is a more punitive rate than current rates that only applies if a Council repays debt early.

The Council has a liability for the remaining 12.5 years on its 25 year School PFI contract for the construction element. A commercial bank loan for the remaining period as at 31<sup>st</sup> March 2015 of the contract would be similar to the assumed interest rate within the contract, therefore the fair value of the liability is materially similar to the carrying value of the liability.

## 14. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

### Credit Risk

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

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

2014/15	Value as at 31st March 2015	Historical experience of default	Historical experience adjusted for market conditions as at 31 <sup>st</sup> March 2015	Estimated maximum exposure to default and uncollectability at 31 <sup>st</sup> March 2015
	£m	%	%	£m
Deposits with banks and other financial institutions	39.3	0	0	<b>0</b>
Deposits held by Fund Manager	30.0	0	0	<b>0</b>
Trade and other Receivables (Sundry Debt)	<b>3.9</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

The Council does not generally allow credit to customers. Within the Council's sundry debt total of £3.9m (£2.7m 13/14), £1.0m (£0.6m 13/14) is over three months due for payment. The past due amount can be analysed by age as follows:

31 <sup>st</sup> March 2014		31 <sup>st</sup> March 2015
£m		£m
2.1	Less than 3 months	<b>2.9</b>
0.2	Three months to one year	<b>0.5</b>
0.4	More than one year	<b>0.5</b>
2.7	<b>Total</b>	<b>3.9</b>

At year end the level of impairment for all Council debt is assessed and reflected in the value of the impairment disclosed on the balance sheet within the debtors total and disclosed in the debtors note (note 16).

### Liquidity Risk

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

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

31 <sup>st</sup> March 2014		31 <sup>st</sup> March 2015
£m		£m
1.3	Less than one year	<b>1.3</b>
0.0	Between one and two years	<b>0</b>
6.0	Between two and five years	<b>11.0</b>
10.0	Between five and ten years	<b>13.0</b>
24.3	Between ten and twenty years	<b>31.1</b>
37.3	Between twenty and thirty years	<b>24.1</b>
60.6	Above thirty years	<b>59.1</b>
139.5	<b>Total</b>	<b>139.6</b>

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

### Market Risk

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

### **Interest Rate Risk**

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

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

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

The Council has a number of strategies for managing interest rate risk. Its policy is to limit its exposure to variable rate loans. As at 31<sup>st</sup> March 2015 the Council didn't have any PWLB borrowing at variable interest rates with £10m in market loans (LOBO) where in future years the rates could vary.

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

If on the 31<sup>st</sup> March 2015 the interest rates are 1% higher than the actual interest rates the financial impact would be:

a) Borrowing:

The Council had no variable rate borrowing as at 31st March 2015 so there would be no impact.

b) Investments:

It is reasonable to assume that the Council's investments in "cash" accounts, money market funds and the fund manger should increase by the change in interest rates. If the Council's investment in these instruments were maintained at the level as at 31st March 2015 for a full financial year, this would generate an additional £0.1m over a year. It should be noted that if the interest rate increase was forecast it is likely the profile of fixed rate deposits would have been invested on that basis.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

### **Price Risk**

The Council does not generally invest in equity shares. The Council does have an equity interest in a number of companies as part of service delivery (see note 31). Of these, only the share holding in TOR2 could lead to a realised share of profits.

### **Foreign Exchange Risk**

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

## 15. Investments

### Long Term Investments

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

2013/14			2014/15	
Subsidiary	Money Market		Subsidiary	Money Market
£m	£m		£m	£m
3.1	5.0	<b>Balance at start of year:</b>	<b>2.6</b>	<b>0</b>
-	(5.0)	Change in Investment in year	-	<b>15.0</b>
(0.5)	-	Change in fair value of Company	<b>(1.5)</b>	-
2.6	0	<b>Fair Value as at 31<sup>st</sup> March</b>	<b>1.1</b>	<b>15.0</b>

### Short Term Investments

Temporary investments are short term investments with a maturity less than one year that are held for investment purposes not short term cash flow liquidity. As at 31<sup>st</sup> March 2015 the Council held £54.1m (2013/14 £67.3m) of short-term (money market) investments (principal only), of which £30.0m (2013/14 £30.2m) is held by the Council's fund manager Aberdeen Asset Management).

Total Invested 31st March 2014			Total Invested 31st March 2015	
£ m			£ m	
		Short Term Investments (less than 1 year)		
26.0		Deposits: fixed term & structured		<b>16.0</b>
11.1		Notice\Call Accounts		<b>8.1</b>
30.2		Fund Manager *		<b>30.0</b>
67.3		<b>Total Temporary Investments</b>		<b>54.1</b>
67.6		<i>Fair Value as at 31<sup>st</sup> March - including interest due</i>		<i>54.3</i>

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

## 16 . Debtors

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

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

31 <sup>st</sup> March 2014		31 <sup>st</sup> March 2015
£m		£m
4.5	Central government bodies (WGA)	4.1
1.3	Other local authorities and public bodies	2.2
1.5	NHS bodies	0.8
4.7	Council Tax (inc. liability orders)	5.3
0.8	NNDR (inc liability orders)	0.9
2.7	Housing Benefit	3.5
7.1	Other entities and individuals	8.1
22.6	<b>Sub Total</b>	<b>24.9</b>
(6.4)	Impairment (uncollectibility of debt)	(7.4)
16.2	<b>Total</b>	<b>17.5</b>

## 17. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents, including use of bank overdrafts, is made up of the following elements:

31 March 2014		31 March 2015
£m		£m
1.3	Bank current accounts	0.6
5.1	Short-term deposits with Money Market Funds and Liquidity Accounts	0.6
6.4	<b>Total Cash and Cash Equivalents</b>	<b>1.2</b>
6.9	<i>Current Assets</i>	<b>2.5</b>
(0.5)	<i>Current Liabilities</i>	<b>(1.3)</b>
6.4	<b>Total Cash and Cash Equivalents</b>	<b>1.2</b>

## 18. Creditors

Represents monies owed by the Council

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

31 March 2014		31 March 2015
£m		£m
6.9	Central government bodies (WGA)	4.5
2.3	Other local authorities and public bodies	4.5
1.2	NHS bodies	1.2
12.9	Other entities and individuals	15.2
23.3	<b>Total</b>	<b>25.4</b>

**19. Provisions**

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

	Insurance	NNDR Appeals	Restructure & Reductions	Other Provisions	Total
	£m	£m	£m	£m	£m
<b>Balance at 31 March 2014</b>	<b>0.5</b>	<b>1.2</b>	<b>0.1</b>	<b>0.4</b>	<b>2.2</b>
Provisions made in year	0	- *	0.1	0.1	0.2
Provisions reversed in year	0	- *	0	(0.1)	(0.1)
Amounts used in year	(0.2)	- *	(0.1)	(0.1)	(0.4)
<b>Balance at 31 March 2015</b>	<b>0.3</b>	<b>1.2</b>	<b>0.1</b>	<b>0.3</b>	<b>1.9</b>
<i>Short term</i>	<i>0.2</i>	<i>1.2</i>	<i>0.1</i>	<i>0.3</i>	<i>1.8</i>
<i>Long term</i>	<i>0.1</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0.1</i>
<i>Balance at 31 March 2015</i>	<i>0.3</i>	<i>1.2</i>	<i>0.1</i>	<i>0.3</i>	<i>1.9</i>

*\*An analysis of NNDR movements in year not separately identifiable as appeals are reflected within a premises' overall NNDR liability in Collection Fund*

**Name of Provision**

**Description of Provision**

Insurance

Reflects a reliable estimate of Council liability on all known claims outstanding as at 31<sup>st</sup> March, which have yet to be settled. The timing of spend will be up to three years depending on claim type.

NNDR Appeals

Reflects the Councils 49% share of the estimated value of outstanding NNDR appeals submitted to the Valuation Office by 31<sup>st</sup> March.

Restructure & Reductions	Provision to meet liabilities of implementing the Council's budget reductions for 2015/16 and management restructure based on decisions made by 31 <sup>st</sup> March 2015.
Other Provisions	These include provision for the payment of legal fees and a repayment of grant

## 20. Borrowing

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

31 <sup>st</sup> March 2014		31 <sup>st</sup> March 2015
Principal £ m	Borrowing Repayable	Principal £ m
	Amounts falling due in excess of one year	
10.0	Money Market (LOBO)	10.0
128.1	Public Works Loans Board	128.1
138.1	<b>Total</b>	<b>138.1</b>
139.5	Fair Value as at 31 <sup>st</sup> March - including interest due	139.6

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

Total Principal Outstanding 31st March 2014 £ m	Analysis of Loans by Maturity	Average Interest Rate	Total Principal Outstanding 31st March 2015 £ m
0	2 up to 3 years	3.97%	<b>4.0</b>
4.0	3 up to 4 years	3.82%	<b>2.0</b>
2.0	4 up to 5 years	4.70%	<b>5.0</b>
10.0	5 up to 10 years	4.33%	<b>13.0</b>
12.8	10 up to 15 years	4.34%	<b>19.8</b>
11.5	15 up to 20 years	4.70%	<b>11.3</b>
20.9	20 up to 25 years	4.72%	<b>18.1</b>
76.9	Over 25 years	4.32%	<b>64.9</b>
138.1	Total	4.39%	<b>138.1</b>
139.5	<i>Fair Value as at 31<sup>st</sup> March - including interest due</i>		139.6

### Lenders Option Borrowers Option (LOBO)



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

## 21. Liabilities

The Council has entered into a contract or agreement that guarantee future payments to a third party.

31 <sup>st</sup> March 2014 £m		31 <sup>st</sup> March 2015 £m
	Liabilities due within 1 year	
0.5	PFI Liability	<b>0.5</b>
0.8	DCC Pre LGR Liability	<b>0.8</b>
1.3	<b>Total due within 1 year</b>	<b>1.3</b>
	Liabilities due over 1 year	
8.4	PFI Liability	<b>7.9</b>
8.9	DCC Pre LGR Liability	<b>9.2</b>
1.0	Financial Guarantees	<b>1.0</b>
18.3	<b>Total due over 1 year</b>	<b>18.1</b>
19.6	<b>Total Liabilities</b>	<b>19.4</b>

### Westland and Homelands Schools PFI Scheme

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

### PFI Property Plant and Equipment

The assets used to provide services at both schools are recognised on the Council's Balance Sheet. Since the PFI contract started Westlands school became a Foundation School. The Council has retains the liability to the PFI contractor. Westlands school is expected to transfer to academy status in 2015/16 at which point the assets will be de recognised.

### PFI Payments

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. In relation to this contract the Council recognises as a liability on its balance sheet the element of this annual payment that relates to the construction and purchase of the two schools. The other elements of the contract, finance costs and service charges are recognised on an annual basis in the Council's Comprehensive Income and Expenditure account. Payments remaining to be made under the PFI contract at 31 March 2015 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services *	Reimbursement of Capital Expenditure	Interest	Total
	£m	£m	£m	£m
Payable in 2015/16	1.7	0.5	0.4	2.6
Payable within 2 to 5 years	6.8	2.2	1.4	10.4
Payable within 6 to 10 years	8.4	3.5	1.1	13.0
Payable within 11 to 15 years	4.2	2.2	0.2	6.6
<b>Total</b>	<b>21.1</b>	<b>8.4</b>	<b>3.1</b>	<b>32.6</b>

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

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

2013/14		2014/15
£m		£m
9.2	Balance outstanding at start of year	8.8
(0.4)	Payments during the year	(0.4)
8.8	<b>Balance outstanding at year-end</b>	<b>8.4</b>

### Energy From Waste Plant – Private Finance Initiative applicable for 2015/16

Torbay, in partnership with Plymouth and Devon County Councils has entered into a 25 year PFI contract with MVV Umwelt for the construction and operation of an Energy From Waste Plant for the disposal of domestic waste. The Plant is operational from April 2015 and will be included in the 2015/16 Statement of Accounts, when the Councils will deliver waste to the facility paying a unitary charge linked to waste tonnages.

### Local Government Reorganisation 1998

Torbay Council became a unitary Council in 1998 taking over some of the services previously provided by Devon County Council. The Council agreed to fund a tax base share (11.73%) of any future costs that Devon incurred in relation to discretionary pension enhancements that Devon County Council had agreed to pay to its staff prior to 1998. The payment to Devon

County Council in 2014/15 was £0.8m (£0.8m 2013/14). The estimate of the remaining liability of £10.0m is based on Devon County's IAS19 disclosures.

2013/14		2014/15
£m		£m
9.8	Balance outstanding at start of year	9.7
0.7	IAS19 Actuarial remeasurements	1.1
(0.8)	Payments during the year to Devon County	(0.8)
9.7	<b>Balance outstanding at year-end</b>	<b>10.0</b>

## Financial Guarantees

### Torbay Coast and Countryside Trust

The Council has agreed to act as a guarantor to the Torbay Coast and Countryside Trust for £975,000 (£975,000 2013/14). This is relating to a bank loan and an overdraft facility, in respect of capital work and trading at Occombe Farm.

As at 31<sup>st</sup> March 2015 the fair value of this guarantee was £975,000 (£975,000 2013/14). On the basis of the TCCT financial plans there are no plans for the TCCT to be able to clear their debts in the short term without the Council agreeing to sell land leased to the TCCT. The fair value of the guarantee has been assessed at its full value.

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

## 22. Useable Reserves

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

31 <sup>st</sup> March 2014		For in year movements see Note:-	2014/15 movement	31 <sup>st</sup> March 2015
£m				£m
4.4	General Fund Reserve	7	0	4.4
34.0	Earmarked Reserves	8	(3.1)	30.9
1.8	Usable Capital Receipts Reserve	7	1.6	3.4
10.4	Capital Grants & Contributions Unapplied	7	(5.2)	5.2
50.6	<b>Total Usable Reserves</b>		<b>(6.7)</b>	<b>43.9</b>

## 23. Unusable Reserves

Movements in the Council's unusable reserves are detailed in the Movement in Reserves Statement and each reserve is shown in the table below. A full description of each reserve is available in the glossary:

31 <sup>st</sup> March 2014  restated  £m		For in year movements see Note:-	2014/15 movement  £m	31 <sup>st</sup> March 2015  £m
55.2	Revaluation Reserve	23	1.9	57.1
127.0	Capital Adjustment Account	7	(7.9)	119.1
(1.0)	Financial Instruments: Adjustment Account		(0.1)	(1.1)
2.6	Financial Instruments: Available for Sale		(1.5)	1.1
(130.0)	Pensions Reserve	7	(47.8)	(177.8)
(1.1)	Collection Fund Adjustment Account	7	2.7	1.6
(1.6)	Accumulating Compensated Absences Adjustment Account	7	0.3	(1.3)
51.1	<b>Total Unusable Reserves</b>		<b>(52.4)</b>	<b>(1.3)</b>

### 23.1 Revaluation Reserve

2013/14		2014/15		
£m		Note	£m	
53.7	<b>Balance at 1 April</b>			55.2
4.9	Revaluation of assets		3.4	
4.9	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services			3.4
(0.8)	Difference between fair value depreciation and historical cost depreciation		(0.9)	
(2.6)	Accumulated gains on assets sold or scrapped		(0.6)	
(3.4)	Amount written off to the Capital Adjustment Account	7		(1.5)
55.2	<b>Balance at 31 March</b>			57.1

## 24. Amounts Reported for Resource Allocation Decisions

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

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

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

Directorate Income and Expenditure											
2013/14					2014/15						
Adults & Resources	Childrens, Schools & Families	Public Health & Community Safety	Place & Resources	Total		Adults	Childrens, Schools & Families	Public Health & Community Safety	Place	Operations	Total
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m	
(3.5)	(10.1)	(2.8)	(27.0)	(43.4)	Fees, charges & other service Income	(2.6)	(11.5)	(2.7)	(16.3)	(12.4)	(45.5)
(0.1)	(53.4)	(7.2)	(76.4)	(137.1)	Government grants	0	(48.9)	(7.6)	(1.6)	(75.4)	(133.5)
(3.6)	(63.5)	(10.0)	(103.4)	(180.5)	<b>Total Income</b>	<b>(2.6)</b>	<b>(60.4)</b>	<b>(10.3)</b>	<b>(17.9)</b>	<b>(87.8)</b>	<b>(179.0)</b>
5.6	47.9	3.1	16.3	72.9	Employee expenses	0.3	41.0	3.5	7.1	11.8	63.7
51.6	47.5	8.7	126.8	234.6	Other service expenses	47.2	47.1	9.0	38.8	89.6	231.7
57.2	95.4	11.8	143.1	307.5	<b>Total Expenditure</b>	<b>47.5</b>	<b>88.1</b>	<b>12.5</b>	<b>45.9</b>	<b>101.4</b>	<b>295.4</b>
53.6	31.9	1.8	39.7	127.0	<b>Net Expenditure</b>	<b>44.9</b>	<b>27.7</b>	<b>2.2</b>	<b>28.0</b>	<b>13.6</b>	<b>116.4</b>

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement		
2013/14	This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement	2014/15
£m		£m
127.0	<b>Net expenditure in the Directorate Analysis</b>	<b>116.4</b>
19.8	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	<b>17.0</b>
(12.1)	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	<b>(3.5)</b>
134.7	<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>129.9</b>

### Reconciliation of Directorate Income and Expenditure to subjective analysis of the surplus or deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement (C I&E).

2013/14 - restated						2014/15						
Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CI&E	Cost of Services	Corporate Amounts	Total	2014/15	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
£m	£m	£m	£m	£m	£m		£m	£m	£m	£m	£m	£m
(43.4)	0.1	13.4	(29.9)	(1.5)	(31.4)	Fees, charges & other service income	(45.5)	0.1	13.0	<b>(32.4)</b>	(1.9)	(34.3)
0	0	0	0	(1.7)	(1.7)	Interest and investment income	0	0	0	<b>0</b>	(1.7)	(1.7)
0	0	0	0	(54.2)	(54.2)	Income from council tax	0	0	0	<b>0</b>	(52.8)	(52.8)
(137.1)	(4.0)	4.3	(136.8)	(81.5)	(218.3)	Government grants and contributions	(133.5)	0	4.8	<b>(128.7)</b>	(79.9)	(208.6)
(180.5)	(3.9)	17.7	(166.7)	(138.9)	(305.6)	<b>Total Income</b>	<b>(179.0)</b>	<b>0.1</b>	<b>17.8</b>	<b>(161.1)</b>	<b>(136.3)</b>	<b>(297.4)</b>
72.9	0.9	0	73.8	0	73.8	Employee expenses	63.7	(1.6)	0	<b>62.1</b>	0	62.1
234.6	4.6	(29.8)	209.4	0.1	209.5	Other service expenses	231.7	6.7	(21.3)	<b>217.1</b>	0.3	217.4
0	18.2	0	18.2	0.3	18.5	Depreciation, amortisation and impairment	0	11.8	0	<b>11.8</b>	0	11.8
0	0	0	0	12.9	12.9	Interest Payments	0	0	0	<b>0</b>	11.7	11.7
0	0	0	0	0.2	0.2	Precepts & Levies	0	0	0	<b>0</b>	0.2	0.2
0	0	0	0	22.0	22.0	Gain or Loss on Disposal of Non Current Assets	0	0	0	<b>0</b>	11.3	11.3
307.5	23.7	(29.8)	301.4	35.5	336.9	<b>Total expenditure</b>	<b>295.4</b>	<b>16.9</b>	<b>(21.3)</b>	<b>291.0</b>	<b>23.5</b>	<b>314.5</b>
127.0	19.8	(12.1)	134.7	(103.4)	31.3	<b>(Surplus)/Deficit deficit on the provision of services</b>	<b>116.4</b>	<b>17.0</b>	<b>(3.5)</b>	<b>129.9</b>	<b>(112.8)</b>	<b>17.1</b>

## 25. Pooled Budgets

Under section 75 of the NHS Act 2006, the Council has a pooled budget arrangement with NHS South Devon and Torbay Clinical Commissioning Group (CCG) for the joint provision of an equipment store for the purchase and distribution of items to meet the social care and health needs of people living in the Torbay area. The Council and the CCG have an agreement in place for funding these with each contributing funds to the agreed budget equal to a 50% split. The pooled budget is hosted by the Council as the lead body on behalf of the two partners to the agreement. The total expenditure on the pooled budget for 2014/15 was £1.9m (£1.1m 13/14), of which £0.9m (£0.6m 13/14) was borne by the Council.

## 26. Members' Allowances

Under the Council's Members Allowances scheme £429,000 (£440,000 2013/14) were paid to members of the Council during the year. In addition £3,000 of approved expenses were paid (£4,000 2013/14). The current Allowances' scheme can be found on the Council's website at

[www.torbay.gov.uk/index/council/councillors-democracy/constitution.htm](http://www.torbay.gov.uk/index/council/councillors-democracy/constitution.htm).

## 27. Officers' Remuneration

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

		Salary	Expenses	Compensation for Loss of Office	Pension Contribution at "common rate"	Total
		£000's	£000's	£000's	£000's	£000's
Steve Parrock - Executive Director (from August 2013)	<b>2014/15</b>	<b>137</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>150</b>
	2013/14	120	0	0	10	130
Caroline Taylor - Interim Chief Operating Officer to August 2013/Director of Adults	<b>2014/15</b>	<b>88</b>	<b>1</b>	<b>0</b>	<b>12</b>	<b>101</b>
	2013/14	98	1	0	14	113
Director of Children's Services	<b>2014/15</b>	<b>111</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>125</b>
	2013/14	110	0	0	16	126
Director of Place	<b>2014/15</b>	<b>88</b>	<b>1</b>	<b>0</b>	<b>12</b>	<b>101</b>
	2013/14	88	1	0	13	102
Chief Finance Officer (s151)	<b>2014/15</b>	<b>79</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>89</b>
	2013/14	78	0	0	11	89
Director of Public Health from November 2013	<b>2014/15</b>	<b>98</b>	<b>1</b>	<b>0</b>	<b>14</b>	<b>113</b>
	2013/14	38	0	0	5	43
Director of Public Health to November 2013	<b>2014/15</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2013/14	53	2	0	7	62
Monitoring Officer from	<b>2014/15</b>	<b>74</b>	<b>1</b>	<b>0</b>	<b>10</b>	<b>85</b>



January 2014	2013/14	17	0	0	2	19
Monitoring Officer to January 2014	<b>2014/15</b>	-	-	-	-	-
	2013/14	36	0	0	5	41

The number of employees, including the senior officers disclosed above, receiving more than £50,000 remuneration, excluding employer's pension contributions, while employed by Torbay Council is set out in the table below in bands of £5,000. Remuneration for these purposes includes all sums paid or receivable by an employee and sums due by way of and the money value of any other benefits received other than in cash. School employees are reducing linked to conversion to Academy status. Employees had a pay award in 2014/15 which would impact on the lower band as the banding has not been inflated.

Number of Employees by Employer 2013/14			Remuneration Band	Number of Employees by Employer 2014/15		
Council	Schools - Council	Schools - Governing Body		Council	Schools - Council *	Schools - Governing Body *
18	3	7	£50,000 to £54,999	9	2	9
8	4	6	£55,000 to £59,999	12	4	3
6	2	2	£60,000 to £64,999	5	2	3
2	0	3	£65,000 to £69,999	2	1	3
4	3	0	£70,000 to £74,999	4	2	1
2	0	0	£75,000 to £79,999	2	1	0
0	0	0	£80,000 to £84,999	0	0	0
2	0	1	£85,000 to £89,999	2	0	0
0	1	0	£90,000 to £94,999	0	0	0
2	0	0	£95,000 to £99,999	1	0	0
0	0	0	£100,000 to £104,999	0	0	0
1	0	0	£105,000 to £109,999	0	0	0
0	0	1	£110,000 to £114,999	1	0	0
1	0	0	£120,000 to £124,999	0	0	0
0	0	0	£135,000 to £139,999	1	0	0
46	13	20	Total	39	12	19

## 28. External Audit Costs

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

2013/14 £000		2014/15 £000
135	Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	136
0	External Audit Fee Rebate from Audit Commission	(14)
13	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	17
148	<b>Total</b>	<b>139</b>

## 29. Dedicated Schools Grant (DSG)

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

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

Details of the deployment of DSG receivable for 2014/15 are as follows:

<b>Schools Budget Funded by Dedicated Schools Grant 2014/15</b>			
	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2014/15 before Academy Recoupment	0	0	89.2
Academy figure recouped for 2014/15	0	0	(47.5)
<b>Total DSG after Academy Recoupment for 2014/15 *</b>	<b>0</b>	<b>0</b>	<b>41.7</b>
Bought Forward from 2013/14	0	0	0.1
Agreed initial budgeted distribution in 2014/15	12.6	29.2	41.8
Final budgeted distribution for 2014/15	12.6	29.2	41.8
Less: Actual Central Expenditure	12.4	0	12.4
Less: Actual ISB deployed to schools	0	29.2	29.2
<b>Carry forward to 2015/16</b>	<b>0.2</b>	<b>0</b>	<b>0.2</b>

\* Value of DSG reflected in Council's Comprehensive Income and Expenditure Statement

### 30. Grant Income

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

2013/14 restated £m	Credited to Taxation and Non Specific Grant Income	2014/15 £m
42.7	Revenue Support Grant	35.3
3.1	Other General Grants	1.6
1.6	New Homes Bonus Grant	2.1
0.6	Council Tax Freeze Grant	0.6
29.2	NNDR Retention Scheme	29.4
0.5	Grant re PFI Finance costs	0.5
7.1	Capital Grants & Contributions	8.6
84.8	<b>Total</b>	<b>78.1</b>
	<b>Credited to Cost of Services</b>	
46.8	Dedicated Schools Grant (Department of Education)	41.7
69.0	Benefit Subsidy & Admin Grant (Dept of Work & Pensions)	68.6
2.2	Pupil Premium	2.6
2.2	Post 16 Funding (Learning & Skills Council)	2.0
7.1	Public Health Grant	7.4
5.5	Other Central Government Grants – Revenue	6.6
3.9	Other Central Government Grants – Refcus *	1.1
<b>137.6</b>	<b>Total</b>	<b>130.0</b>

In addition the Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if conditions not met.

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

### 31. Related Parties

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

### Interest in Companies

The Council maintains involvement with a number of subsidiary and associated companies. The impact of consolidation of these interests into group accounts is not material.

The Council has provided pension guarantees to the Torbay Economic Development Company, the English Riviera Tourism Company and Careers South West. Also the Council has provided a bank guarantee and loan to PLUS. Further details are disclosed in note 33 on Contingent Liabilities.

All the companies within the group have a reporting period end date of the 31st March, with exception of TOR2 which now has a 30<sup>st</sup> June date to align with other Kier May Gurney companies. (Kier May Gurney own 80.01% of TOR2).

For those companies within the group that are 'Limited by Guarantee and not having a share capital' any surplus is reinvested into their activities. The Torbay Economic Development Company Ltd (TEDC Ltd) is a private limited company; however the intention is that any surplus is reinvested into the service. TOR2 is also a private limited company where the Council is due a share of any profits (not applicable in 2013/14).

The Council's interest in TOR2 Ltd is less than the accounting presumption that a 20% holding in a company is necessary for significant influence. The Council has considered its relationship with this company and concluded that it does have significant influence over it due to the dependence it has on the Council. Therefore the company has been treated as associate.

As at the 31st March 2015 the net balances outstanding between members of the group were:-

- Torbay Council and TOR2 Ltd, a net £0.6m owed by the Council
- Torbay Council and the Torbay Economic Development Company, a net £0.1m owed by Torbay Council in addition to £1.3m paid in advance.

Company Name and Reg'n No	Type of Company	Commenced Trading	Principal Activities during the year	Assessed Relationship	Shareholding /Control and Company Directors
Torbay Economic Development Company Ltd  07604855	Private Limited Company	14 <sup>th</sup> April 2011	To bring about Regeneration in Torbay  In 14/15 Council paid £1.8m (£1.8m 13/14) grant	Subsidiary	Shareholding /Control: 100%  Members of Torbay Council that are Directors of this Company are as follows:- Cllr Mark Pountney Cllr David Thomas Cllr Alan Tyerman Steve Parrock (Officer Torbay Council) A full list of directors is available at:- <a href="http://www.torbaydevelopmentagency.co.uk/">http://www.torbaydevelopmentagency.co.uk/</a>
English Riviera Tourism Company Ltd  07223987	Local Authority Controlled Company Limited by Guarantee and not having a share capital	1 <sup>st</sup> October 2010	Marketing the English Riviera and managing and delivering the English Riviera Visitor Information Service  In 14/15 Council paid £0.5m (£0.5m 13/14) grant	Subsidiary	Shareholding /Control: 100%  Members of Torbay Council that are Directors of this Company are as follows:- Cllr. Roger Stringer Cllr. Jeanette Richards (resigned 10/14) Cllr. Derek Mills (from 10/14) S Cheriton (Officer Torbay Council) A full list of directors is available at:- <a href="http://englishrivieratourism.co.uk/ertc-board-members.php">http://englishrivieratourism.co.uk/ertc-board-members.php</a>
Oldway Mansion Management Company Ltd  8219420	Company limited by share	20 <sup>th</sup> September 2012	To manage the Oldway Estate on behalf of Torbay Council and tenants  In 14/15 Council funded a £0.1m (£0.1m 13/14) payment	Subsidiary	Shareholding /Control: 100% Directors: M Bennett (Officer Torbay Council) C Uzzell (Officer Torbay Council)
TOR2 Ltd  07204696	Company limited by share	19 <sup>th</sup> July 2010	Waste and recycling collections; maintenance of highways, grounds, parks, car parks, buildings and the Council's vehicle fleet; street and	Associate	Shareholding /Control: 19.99%  Members of Torbay Council that are Directors

			<p>beach cleansing; and out of hours call centre support in the Torbay area</p> <p>Council has 10 year contract with TOR2 for a number of services. For 2014/15 annual cyclical works were approx £11m (£10m 13/14) and ordered works approx £3m (£3m 13/14)</p>		<p>of this Company are as follows:-</p> <p>Cllr Peter Addis</p>
<p>Careers South West Ltd</p> <p>3029947</p>	<p>Local Authority Controlled Company Limited by Guarantee and not having a share capital</p>	<p>1<sup>st</sup> April 2008 formerly Connexions Cornwall &amp; Devon Ltd</p>	<p>To develop, co-ordinate, operate and ensure provision of support services for young people and provide careers advice, information and guidance to people of all ages.</p> <p>In 14/15 Council funded a £0.4m (£0.4m 13/14) payment</p>	<p>Associate</p>	<p>Shareholding /Control: 25%</p> <p>A list of directors is available at:</p> <p><a href="https://www.careerssw.org/about-us">https://www.careerssw.org/about-us</a></p>
<p>The PLUSS Organisation Ltd</p> <p>05171613</p>	<p>Local Authority Controlled Company Limited by Guarantee and not having a share capital</p>	<p>1<sup>st</sup> August 2005</p>	<p>Primary purpose is to inspire people of all abilities to achieve a career. The key areas are employment services and supported enterprises</p> <p>In 14/15 Council funded a £0.2m (£1.6m 13/14) payment.</p>	<p>Associate</p>	<p>Shareholding /Control: 25%</p> <p>Members of Torbay Council that are Directors of this Company are:- Councillor Stocks</p> <p>A full list of directors is available at: <a href="http://www.pluss.org.uk/pluss-board-directors">http://www.pluss.org.uk/pluss-board-directors</a></p>

### Summary financial information of Subsidiary Companies

This table lists summary information about the Council's interest in subsidiary companies and its relationship with them in terms of ownership and trading. Torbay share 100%

	Torbay Economic Development Co Ltd		English Riviera Tourism Co Ltd		Oldway Mansion Management Co Ltd	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
	£m	£m	£m	£m	£m	£m
Income	(4.3)	<b>(4.5)</b>	(0.8)	<b>(0.7)</b>	(0.1)	<b>(0.1)</b>
Expenditure	4.5	<b>4.7</b>	0.8	<b>0.7</b>	0.1	<b>0.1</b>
<b>Operating (Profit) or loss</b>	0.2	<b>0.2</b>	0	<b>0</b>	0	<b>0</b>
Other Comprehensive Income	0	<b>0.2</b>	0	<b>0</b>		<b>0</b>
Actuarial (gains)/Losses recognised in the pension scheme	0.2	<b>1.1</b>	(0.1)	<b>0.2</b>	0	<b>0</b>
Taxation (including deferred)	0	<b>0</b>	0	<b>0</b>	0	<b>0</b>
<b>Total (Profit) or loss</b>	0.4	<b>1.5</b>	(0.1)	<b>0.2</b>	0	<b>0</b>
<b>Assets</b>	4.1	<b>5.8</b>	0	<b>0</b>	0	<b>0</b>
<b>Liabilities</b>	(1.5)	<b>(4.7)</b>	(0.1)	<b>(0.3)</b>	0	<b>0</b>
<b>Total Net Assets</b>	2.6	<b>1.1</b>	(0.1)	<b>(0.3)</b>	0	<b>0</b>

### Summary financial information of Associate Companies

This table lists summary information about the Council's interest in associate companies and its relationship with them in terms of ownership and trading.

	TOR2 Ltd		Careers South West Ltd		The PLUS Organisation Ltd	
	Total	Torbay Council's Share (19.99%)	Total	Torbay Council's Share (25%)	Total	Torbay Council's Share (25%)
	£m	£m	£m	£m	£m	£m
<b>2013/14</b>						
Income	(15.3)	(3.1)	(13.5)	(3.4)	(27.8)	(7.0)
Expenditure	14.9	3.0	13.9	3.5	27.5	6.9
Operating (Profit) or loss	(0.4)	(0.1)	0.4	0.1	(0.3)	(0.1)
Other Comprehensive Income and Expenditure	0	0	0.2	0	(2.0)	(0.5)
Actuarial (gains)/Losses recognised in the pension scheme	0	0	2.7	0.7	1.0	0.3
Taxation (including deferred)	0.1	0	0	0	0.6	0.1
<b>Total (Profit) or loss</b>	(0.3)	(0.1)	3.3	0.8	(0.7)	(0.2)
Assets	3.9	0.8	4.8	1.2	8.2	2.0
Liabilities	(4.5)	(0.9)	(14.8)	(3.7)	(6.9)	(1.7)
<b>Total Capital &amp; Reserves</b>	<b>(0.6)</b>	<b>(0.1)</b>	<b>(10.0)</b>	<b>(2.5)</b>	<b>1.3</b>	<b>0.3</b>

	TOR2 Ltd		Careers South West Ltd		The PLUSS Organisation Ltd	
<b>2014/15</b>	*		**			
Income	(23.9)	(4.8)	(11.0)	(2.8)	(28.4)	(7.1)
Expenditure	23.4	4.7	11.1	2.8	27.6	6.9
<b>Operating (Profit) or Loss</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>0.1</b>	<b>0</b>	<b>(0.8)</b>	<b>(0.2)</b>
Other comprehensive income and expenditure	0	0	0	0	0	0
Actuarial (Gains)/Losses recognised in the pension scheme	-	-	-	-	-	-
Taxation	0.1	0	0	0	0	0
<b>Total (Profit) or loss</b>	<b>(0.4)</b>	<b>(0.1)</b>	<b>0.1</b>	<b>0</b>	<b>(0.8)</b>	<b>(0.2)</b>
Fixed Assets & Net Current Assets	0.7	0.1	1.7	0.4	2.9	0.7
Long Term Liabilities	(2.2)	(0.4)	0	0	(0.9)	(0.2)
<b>Total Capital &amp; Reserves</b>	<b>(1.5)</b>	<b>(0.3)</b>	<b>1.7</b>	<b>0.4</b>	<b>2.0</b>	<b>0.5</b>

Note\* - TOR2 accounts 15 months to end June 2014. Estimated surplus as at 31/3/15 is £0.5m

Note \*\* - CareersSW – excludes FRS17 pension entries

### Other interests in Companies

The following companies are also linked to the Council. However they are not considered material in financial terms.

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

Torbay Town Centres Limited. In 2008/09 the Council, with representatives from local businesses, formed this company to support the process for establishing Business Improvement Districts (BID) in the Torbay area. The Council collects the BID levy on behalf of the Torquay BID, the Paignton BID and the St Marychurch and Babbacombe BID on an agency basis. The value of the levy collected by the Council and paid to the company in 2014/15 was £0.4m. (2013/14 £0.4m)

Riviera International Conference Centre. The Council has a maximum voting right of 19.99% on the board of the Riviera International Conference Centre Ltd, in addition the Council provides a peppercorn lease for the centre and an annual revenue grant – 2014/15 £0.6m (2013/14 £0.6m). In addition the Council provided a capital grant in 2014/15 of £0.02m (2013/14 £0.1m)

### Trust Funds

The Council acts as a Trustee for a number of funds. These balances do not form part of the Council's accounts. The value of these funds as at 31st March 2015 was £28,000 (£29,000 2013/14). Of this balance £21,000 is held within the Council's bank account with the balance of £7,000 (£7,000 13/14) relating to the (civic) Mayor of Torbay's charity fund held in a separate bank account.

### Central Government

Central government (Her Majesty's Government for the United Kingdom of Britain and Northern Ireland) has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the



Council has with other parties (e.g. council tax bills, housing benefits). Significant grants received from government departments are set out in Note 30.

### **Members**

Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2014/15 is shown in Note 26. Members have not disclosed any material transactions with the Council. The Members' Record of Interests and Register of Gifts & Hospitality for each Member are available on the Council's website.

<http://www.torbay.gov.uk/DemocraticServices/mgMemberIndex.aspx?bcr=1>

### **Officers**

Officers complete a register of interests and the Council maintains a Register of Gifts & Hospitality for officers

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

SWERCOTS is a partnership of 15 local authority trading standard services, who work together to maximise the benefits of regional collaboration to protect the interest of consumers and reputable businesses in the South West of England. The partnership funds are held by Cornwall County Council.

Torbay and Southern Devon Health and Care NHS Trust In December 2005 the Council entered a "partnership agreement" with Torbay Care Trust, (formerly Torbay Primary Care Trust) for the provision of adult care services formally operated by the Council. The Council remains ultimately responsible for adult social care. In 2014/15 the funding payment was £42.2m (£42.0m 2013/14)

The Council has a pooled budget arrangement for the provision of a joint equipment store – see Note 25.

### **Joint Committees**

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

#### Devon Audit Partnership

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

Devon County is the "host" Council for the Joint Committee with all staff now employed by Devon County Council. Assets and Liabilities of the Joint Committee are split on an agreed basis (number of FTE's on inception of the Committee); Torbay's share is equal to 27%. Torbay's contribution to the partnership for 2014/15 was £0.3m (2013/14 £0.3m).

#### PATROL – Parking and Traffic Regulations Outside London.

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

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

### South West Devon Waste Disposal Partnership

Torbay Council, with Plymouth City Council and Devon County Council have begun working together and have jointly contracted a PFI project for an Energy from Waste Plant (based in Plymouth) to dispose of residual waste collected by the three Councils. As part of the Joint Working Agreement between the three Councils the South West Devon Waste Partnership Joint Committee has been established to facilitate the procurement and subsequent operation and management of the facilities (by the selected contractor). The Plant became operational in April 2015.

The expenditure associated with this project is being incurred by Plymouth City Council (as lead authority) and then allocated on an equal share basis to Torbay and Devon County Councils. Expenditure in year was £0.3m of which Torbay's share was £0.1m (£0.1m 13/14) Torbay's share of the expenditure is reflected within the cost of services on the comprehensive income and expenditure statement.

## **32. Impairment Losses**

Impairment losses and impairment reversals are charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. The impairment by asset class is shown within Note 11 reconciling the movement over the year in Property, Plant and Equipment and Heritage Assets. During 2014/14, primarily as a result of the Council's rolling programme the Council has recognised an impairment loss of £3.9 (£10.1m 13/14) in total charged to the Income and Expenditure account.

## **33. Contingent Liabilities**

### **Pension Guarantees**

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

These are listed in the table below:

Organisation	Relationship to Council
Torquay Museum	Grant funded
Economic Development Company	Subsidiary
English Riviera Tourism Company	Subsidiary
Careers South West	Associate
Torbay Coast & Countryside Trust	Grant funded

### **Bank Guarantees**

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

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

## Loans

The Council has provided the following loan or loan facility to the following organisations. These loans are included in the Council's debtor balances on the balance sheet as at 31st March 2015.

Value of loan 31 <sup>st</sup> March 2014 £000s	Organisation	Value of loan 31 <sup>st</sup> March 2015 £000's
139	PLUSS	<b>139</b>
-	Torbay Economic Development Company	<b>575 *</b>
-	Torbay Economic Development Company	<b>1,455 *</b>
318	Academy Schools	<b>213</b>
4	Car Loans – staff	<b>0</b>
16	Babbacombe Cliff Railway	<b>13</b>
5	Housing Loans	<b>2</b>
30	Sports Clubs	<b>35</b>

Note \* loan facility not used as at 31<sup>st</sup> March 2015

## Remote Liabilities

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

The board of Municipal Mutual Insurance limited in 2012/13 concluded that it couldn't forecast a solvent "run off" of claims which has led to the scheme of arrangement being activated which exposes the Council to a share of the costs of any outstanding insurance claims. The company's administrator set an initial levy for all Councils to be 15% of each Council's claims, which was collected in 2013/14. This levy may increase in the future but at present the administrator has not indicated that the levy will increase.

Following recent cases, the Council may have to pay backdated pay claims for staff who regularly work in excess of their contracted hours to where holiday entitlement had not been paid or awarded in relation to those additional hours. The claims are not expected to be material.

The Care Homes that the Council's provider has used to provide a service have submitted a judicial review on the calculation of care home fees paid by the Council in 2014/15. The initial judgement went against the Council, however the Council has been allowed to appeal the judgment. If the appeal goes against the Council, the Council will be required to submit a new model for calculation care home fees. This may result in additional payments to Care Homes relating to 2014/15 which would be funded from reserves. This would also have an ongoing impact on costs in 2015/16 and future years.

## 34. Termination Benefits and Exit Packages

In 2014/15 the Council continued, as part of the Council's budget reductions, the process to terminate the contracts of a number of employees and announced plans that would result in further terminations in 2015/16, incurring a cost of £0.5m in relation to staff redundancy and strain costs. The number of exit packages banded by the total cost of each exit package, split

by compulsory redundancy and other departures, (such as voluntary redundancy or settlements), are detailed in the table below. The costs disclosed are redundancy and strain payments and relate to staff employed by the Council including Council schools.

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

Number of Exit packages by band 2013/14				Value of Exit package £		Number of Exit packages by band 2014/15			
Compulsory Redundancy		Other Departures				Compulsory Redundancy		Other Departures	
No. In Band	Total Cost £000's	No. In Band	Total Cost £000's			No. In Band	Total Cost £000's	No. In Band	Total Cost £000's
42	313	19	100	0	to 20,000	9	47	7	51
4	104	2	54	20,001	to 40,000	0	0	3	78
1	43	1	46	40,001	to 60,000	1	54	2	100
0	0	0	0	60,001	to 80,000	1	61	0	0
0	0	0	0	80,001	to 100,000	0	0	0	0
1	122	0	0	100,001	to 150,000	0	0	1	106
<b>48</b>	<b>582</b>	<b>22</b>	<b>200</b>			<b>11</b>	<b>162</b>	<b>13</b>	<b>335</b>

### 35. Capital Expenditure and Capital Financing

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

2013/14 £m	Capital Financing Requirement	2014/15 £m
135.7	<b>Opening Capital Financing Requirement</b>	<b>135.0</b>
	Capital investment	
9.7	Property, Plant and Equipment	<b>12.2</b>
0	Intangible Assets	<b>0.3</b>
1.3	Heritage Assets	<b>0.1</b>
6.3	Revenue Expenditure Funded from Capital under Statute	<b>7.8</b>
	<b>Sources of finance</b>	
(0.3)	Capital receipts	<b>(0.1)</b>
(11.5)	Government grants and other contributions	<b>(13.6)</b>
	Sums set aside from revenue:	

2013/14 £m	Capital Financing Requirement	2014/15 £m
(1.6)	• Direct revenue contributions	(1.8)
(4.6)	• MRP	(4.6)
<b>135.0</b>	<b>Closing Capital Financing Requirement</b>	<b>135.3</b>
	<b>Explanation of movements in year</b>	
0.3	Increase in underlying need to borrowing (supported by government financial assistance)	0.4
3.6	Increase in underlying need to borrowing (unsupported by government financial assistance)	4.5
(4.6)	Provision for repayment of borrowing (MRP & VRP)	(4.6)
<b>(0.7)</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>0.3</b>

### 36. Leases

#### Council as Lessee

##### Operating Leases - Equipment

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

##### Operating Leases - Property

The Council has leases for a number of properties, primarily for office accommodation. Rent payments in 2014/15 totalled £0.1m (£0.2m 2013/14). The future minimum lease payments due under property leases in future years is £0.2m (£0.2m 2013/14).

##### Finance Leases:

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

#### Council as Lessor

##### Operating Leases – Property:

The Council leases out property under operating leases for the provision of services, such as cafes and golf clubs and for economic development purposes to provide suitable affordable accommodation for local businesses. Payments received in 2014/15, including turnover rents, totalled £3.0m (£2.9m 2013/14).

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

31 March 2014 restated £m	Total payments due classified by year of expiry of lease term	31 March 2015 £m
2.5	Not later than one year	2.7
7.8	Later than one year and not later than five years	6.1
61.2	Later than five years	61.2
71.5	<b>Total</b>	<b>70.0</b>

Finance Leases:

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

### **37. Pensions Schemes Accounted for as Defined Contribution Schemes**

#### **Teachers' Pension Scheme**

The Council takes part in the Teachers' Pension Scheme. Teaching staff employed by the Council are rewarded for years of service with rights to retirement lump sums and pensions based on final salaries. The Council makes an annual contribution to the Scheme calculated as a percentage of pensionable pay. The contribution rate is specified by the Department for Education each year so that budgeted income is sufficient to cover the outgoings of the Scheme. This Scheme operates through a notional fund administered on a national basis. The Scheme does not record liabilities for each participating employer and raises contributions from all employers based on a common percentage of the pensionable pay of current employees, irrespective of any obligations created in previous years. Apart from this shared responsibility for shortfalls on the notional fund, the Council has no direct responsibility for the obligations of any other party to the Scheme.

The Scheme is a defined benefit plan but is accounted for as it were a defined contribution plan. This is because the administrators of the Scheme do not keep separate records of the defined benefit obligations for individual authorities and no assets are attributable to the Scheme.

The employers' contribution rate was 14.1% in 2014/15 (14.1% in 2013/14). Contributions of £2.0m were paid in 2014/15 (£2.4m 13/14). The contribution rate for participants in the Scheme has been set at 14.1% of pensionable pay for 2015/16. The payments for 2015/16 are estimated to be less due to more schools converting to Academy schools.

The 2013/14 accounts for the Scheme record liabilities of £250 billion (£225 billion 12/13). [Source: Teachers' Pension Scheme Annual Accounts 2013/14 in link below]. However, the employers' contribution rate is not set with reference to outstanding liabilities but the payments projected to be made out of the notional fund each year. The Council is one of 174 (174 12/13) local authorities participating in the Scheme, amongst a total of 6,101 employers (4,991 12/13).

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/353182/Teachers\\_pension\\_scheme\\_accounts\\_13-14.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/353182/Teachers_pension_scheme_accounts_13-14.pdf)

#### **NHS Pension Scheme**

Public Health staff who transferred to the Council's employment in April 2013 were entitled to remain in a NHS pension scheme along with new staff recruited to public health if they meet certain criteria.

The Council takes part in the NHS Pension Scheme. Public Health staff employed by the Council are rewarded for years of service with rights to retirement lump sums and pensions based on final salaries. The Council makes an annual contribution to the Scheme calculated as a percentage of pensionable pay. The contribution rate is specified the Department for Health each year so that budgeted income is sufficient to cover the outgoings of the Scheme. This Scheme operates through a notional fund administered on a national basis. The Scheme does not record liabilities for each participating employer and raises contributions from all employers based on a common percentage of the pensionable pay of current employees, irrespective of any obligations created in previous years. Apart from this shared responsibility for shortfalls on the notional fund, the Council has no direct responsibility for the obligations of any other party to the Scheme.

The Scheme is a defined benefit plan but is accounted for as it were a defined contribution plan. This is because the administrators of the Scheme do not keep separate records of the defined benefit obligations for individual authorities and no assets are attributable to the Scheme.

The employers' contribution rate was 14.0% in 2014/15 (14.0% 2013/14). Contributions of £0.1m were paid in 2014/15 (£0.1m 13/14). The contribution rate for participants in the Scheme has been set at 14.3% of pensionable pay for 2015/16. The payments for 2015/16 are estimated to be at a similar level to 2014/15.

The 2013/14 accounts for the Scheme record liabilities of £337 billion (£284 billion 12/13). [Source: NHS Pension Scheme Annual Accounts 2013/14]. However, the employers' contribution rate is not set with reference to outstanding liabilities but the payments projected to be made out of the notional fund each year. The Council is one of 137 local authorities participating in the Scheme, amongst a total of 9,265 employers (9,016 12/13).

[http://www.nhsbsa.nhs.uk/Documents/Pensions/Resource\\_Accounts\\_2013-2014.pdf](http://www.nhsbsa.nhs.uk/Documents/Pensions/Resource_Accounts_2013-2014.pdf)

## **38. Defined Benefit Pension Schemes**

### **Local Government Pension Scheme**

#### **38.1 Characteristics of Defined Benefit Plans and Associated Risks**

Employees of the Council are eligible to join the Local Government Pension Scheme (LGPS), which rewards years of service with rights to retirement lump sums and pensions based on final salaries.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement, with various protections in place for those members in the scheme before the changes took effect.

The Administering Authority for the Fund is Devon County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the Administering Authority. Where appropriate some functions are delegated to the Fund's professional advisers. Details on the scheme are on the website for Peninsula Pensions.

<http://www.peninsulapensions.org.uk/lgps/pension-fund-investments/devon-county-council-investments/annual-reports-and-accounts-archive/>

As Administering Authority to the Fund, Devon County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles.

The appointed actuary to the pension fund is Barnett Waddingham "the actuary", who provide the pension valuations used in these accounts.

The Local Government Pension Scheme is required to have an actuarial valuation every three years. This valuation will set a rate for employer's contributions for the next three years so as to secure the pension fund's solvency, together with any other amounts necessary to recover the deficit built up on the fund.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no

minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

The latest actuarial valuation was prepared as at 31 March 2013. The objectives of the scheme are to keep employer's contributions at as a constant a rate as possible. The agreed contribution rates should result in a 100% funding level over the medium term. This set a contribution rate for the Council of 13.1% of pensionable pay for 2014/15, 2015/16 and 2016/17, budgeted to result in a payment of around £4.0m per annum to the Fund. Additional fixed cash payments of £1.8m per annum (equal to 5.5%) are also payable as a contribution towards the deficit on the fund.

The maturity profile of Torbay members is an average age of 46 (46 13/14) years for active members and deferred pensioners, 69 (69 13/14) years for pensioners and 76 (75 13/14) years for unfunded pensioners.

On the Employer's withdrawal from the plan, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Devon County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

In 2014/15 there were a number of settlements within the fund resulting from staff transfers with a net gain of £1.2m, (£0.7m 13/14). These include staff transfers to Academy schools including Preston Primary and Plymouth Catholic Schools Academy Trust (CAST) run by the Diocese of Plymouth.

To assess the value of the Employer's liabilities at 31 March 2015, the actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.



It is not possible to assess the accuracy of the estimated liability as at 31 March 2015 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2015 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information the actuary has received there appears to be no evidence that this approach is inappropriate.

To calculate the asset share the actuary has rolled forward the assets allocated to the Employer at 31 March 2013 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and its employees.

As required under IAS19 the actuary has used the projected unit method of valuation to calculate the service cost.

## 38.2 Financial statements

The following tables show the impact of the Assets and liabilities in relation to post employment benefits on the Council's accounts in 2014/15. The following tables are shown:

- Net Pension Liability – this table shows the net pension liability in the balance sheet
- Comprehensive Income & Expenditure Statement – this table shows the IAS19 entries as they appear in the Councils Comprehensive Income & Expenditure Statement and the actual cash payments to the pension fund in year.
- Reconciliation of fair value of the scheme (plan) assets - this table shows an analysis of the movements in the pension asset during the year
- Reconciliation of fair value of the scheme (plan) liabilities - this table shows an analysis of the movements in the pension liability during the year

### Net Pension Liability

	2012/13	2013/14	2014/15
	£m	£m	£m
Present value of Funded Obligation	(331.7)	(336.7)	<b>(402.0)</b>
Fair Value of Fund Assets (Bid Value)	215.3	225.7	<b>244.1</b>
<b>Net Liability</b>	<b>(116.4)</b>	<b>(111.0)</b>	<b>(157.9)</b>
Present value of Unfunded Obligation	(8.9)	(9.2)	<b>(9.9)</b>
<b>Net Liability in Balance Sheet</b>	<b>(125.3)</b>	<b>(120.2)</b>	<b>(167.8)</b>

### Comprehensive Income and Expenditure Statement

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

<b>Local Government Pension Scheme Post Employment Benefits</b>		
2013/14 £m	<b>Comprehensive Income &amp; Expenditure Statement</b>	2014/15 £m
	<b>Cost of Services:</b>	
7.9	Current service cost	6.5
0.5	Past service costs	0.3
(0.7)	Settlements and curtailments	(1.2)
0.1	Administration Expenses	0.1
	<b>Financing and Investment Income and Expenditure</b>	
5.5	Net Interest on the defined benefit liability	5.2
13.3	<b>Total Charged to the Surplus or Deficit on the Provision of Services</b>	10.9
	<b>Other Comprehensive Income and Expenditure</b>	
(1.2)	Other Actuarial (gains)/losses on assets	0
7.5	Change in Financial Assumptions	55.3
1.9	Change in Demographic Assumptions	0
(19.9)	Experience (gain)/loss on defined benefit obligation	0.1
(0.3)	Return on plan assets in excess of interest	(12.6)
(12.0)	<b>Sub Total Other Comprehensive Income and Expenditure</b>	42.8
1.3	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	53.7
	<b>Movement in Reserves Statement</b>	
(13.3)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(10.9)
	<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>	
5.8	Employers' contributions payable to scheme	5.6
0.6	Retirement benefits payable to pensioners	0.6

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

<b>Local Government Pension Scheme</b>		
2013/14 £m		2014/15 £m
215.3	<b>Opening balance at 1 April</b>	225.7
9.6	Interest on Assets	10.1
0.3	Return on Assets less Interest	12.6
1.2	Other Actuarial gains/(losses)	0
(0.1)	Administration Expenses	(0.1)
1.8	Contributions by scheme participants	1.8
6.4	Employer contributions	6.2
(11.1)	Benefits paid	(11.4)
2.3	Settlement process received/(paid)	(0.8)
225.7	<b>Closing balance at 31 March</b>	244.1

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

<b>Liabilities: Local Government Pension Scheme</b>		
2013/14 £m		2014/15 £m
(340.6)	<b>Opening balance at 1 April</b>	<b>(345.9)</b>
(8.0)	Current service cost	<b>(6.5)</b>
(1.8)	Contributions by scheme participants	<b>(1.8)</b>
(15.1)	Interest cost	<b>(15.3)</b>
(7.5)	Change in Financial Assumptions	<b>(55.3)</b>
(1.9)	Change in Demographic Assumptions	<b>0</b>
19.9	Experience (loss)/gain on defined benefit obligation	<b>(0.1)</b>
10.5	Benefits paid	<b>10.8</b>
(0.5)	Past service costs, including Curtailments	<b>(0.3)</b>
(1.5)	Liabilities (assumed)/extinguished on Settlements	<b>1.9</b>
0.6	Unfunded Pension payments	<b>0.6</b>
(345.9)	<b>Closing balance at 31 March</b>	<b>(411.9)</b>
(9.2)	Present Value of Unfunded Obligation included in above	<b>(9.9)</b>

### 38.3 Fund Assets

The return on the fund (on a bid value to bid value basis) for the year to 31st March 2015 is estimated to be 10%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Torbay Council as at 31st March 2015 is as follows:

31st March 2014			31 <sup>st</sup> March 2015	
£m	%		£m	%
15.8	7	Gilts	15.0	6
58.7	26	UK Equities	61.6	25
76.7	34	Overseas Equities	83.1	34
20.3	9	Property	25.0	10
4.5	2	Infrastructure	6.6	3
33.9	15	Target Return portfolio	36.0	15
4.5	2	Cash	4.2	2
11.3	5	Other Bonds	8.3	3
0	0	Alternative Assets	4.3	2
<b>225.7</b>	<b>100</b>		<b>244.1</b>	<b>100</b>

Further information on the investment activity is available at:-

<http://www.peninsulapensions.org.uk/lgps/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/>

### 38.4 Actuarial Assumptions

#### Demographic and Statistical Assumptions

The actuary has adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65 are;

<b>Mortality assumptions:</b>	2012/13	2012/13	2013/14	<b>2014/15</b>
Longevity from age 65: retiring today				
• Men	-	20.6 yrs	22.7 yrs	<b>22.8 yrs</b>
• Women	-	24.6 yrs	26.0 yrs	<b>26.1 yrs</b>
Longevity from age 65: retiring in 20 years				
• Men	-	22.6 yrs	24.9 yrs	<b>25.1 yrs</b>
• Women	-	26.5 yrs	28.3 yrs	<b>28.4 yrs</b>

The actuary has made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

### Financial Assumptions

Assumptions	31 <sup>st</sup> March 2012		31 <sup>st</sup> March 2013		31 <sup>st</sup> March 2014		31 <sup>st</sup> March 2015	
	% p.a	% real	% p.a	% real	% p.a	% real	% p.a	% real
RPI Increases	3.3	-	3.4	-	3.6	-	<b>3.2</b>	-
CPI Increases	2.5	(0.8)	2.6	(0.8)	2.8	(0.8)	<b>2.4</b>	<b>(0.8)</b>
Salary Increases	4.7	1.4	4.8	1.4	4.6	1.0	<b>4.2</b>	<b>1.0</b>
Pension Increases	2.5	(0.8)	2.6	(0.8)	2.8	(0.8)	<b>2.4</b>	<b>(0.8)</b>
Discount Rate	4.6	1.3	4.5	1.1	4.5	0.9	<b>3.3</b>	<b>0.1</b>

These assumptions are set with reference to market conditions at 31 March 2015.

The actuary's estimate of the duration of the Employer's liabilities is 19 years.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 19 year point on the BoE spot inflation curve. The RPI assumption is therefore 3.2% per annum. This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on CPI rather than RPI, the actuary has made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.4%. The actuary believes that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.8% per annum above CPI in addition to a promotional scale.

### Sensitivity Analysis on Actuarial assumptions:

The actuary has proved a sensitivity analysis of a 0.1% change in the key actuarial assumptions showing the impact on the net liability and the Service Cost.

	£m	£m	£m
<b>Adjustment to Discount Rate</b>	+0.1%	0%	(0.1%)
Present Value of obligation	404.4	411.9	419.5
Projected Service Cost	7.9	8.1	8.3
<b>Adjustment to Long Term Salary increase</b>	+0.1%	0%	(0.1%)
Present Value of obligation	412.8	411.9	411.0
Projected Service Cost	8.1	8.1	8.1
<b>Adjustment to Pension increases and deferred revaluation</b>	+0.1%	0%	(0.1%)
Present Value of obligation	418.6	411.9	405.3
Projected Service Cost	8.3	8.1	7.9
<b>Adjustment to Mortality Age Rating Assumption</b>	+1 year	None	(1 year)
Present Value of obligation	397.5	411.9	426.4
Projected Service Cost	7.8	8.1	8.4

### 39. Summary of Significant Accounting Policies

#### 1.1 Concepts and Principles

The Accounts and Audit (England) Regulations require the Council to prepare a Statement of Accounts for each financial year in accordance with proper accounting practices. For 2014/15, these proper accounting practices principally comprise:

- the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code)
- the Service Reporting Code of Practice 2014/15 (SeRCOP)
- the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (SI 2003 No 3146, as amended) (the 2003 Regs)

#### 1.2 Accounting Policies

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

The accounting policies that have a significant effect on the amounts recognised in the Council's accounts are listed below. A full list of accounting policies is available on request from [financial.servcices@torbay.gov.uk](mailto:financial.servcices@torbay.gov.uk). Within these policies the abbreviation "CIES" has been used for "Comprehensive Income and Expenditure Statement".

The Statement of Accounts has been prepared using the going concern and accruals bases.

#### Accruals of Income and Expenditure

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

In particular:

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

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

Revenue relating to such things as council tax, general rates, etc shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non exchange transactions and there can be no difference between the delivery and payment dates.

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

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

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

The historical cost convention has been applied, modified by the fair valuation of the following material categories of non-current assets and financial instruments:

<b>Class of Assets</b>	<b>Valuation Basis</b>
Property, Plant and Equipment: Other Land and Buildings	Existing use value
Heritage Assets	Heritage assets (other than operational heritage assets) are measured at valuation in accordance with FRS 30 i.e valuations may be made by any method that is appropriate and relevant such as insurance valuations
Investment Properties	Fair value based on the amount for which the property could be exchanged between knowledgeable parties at arm's length
Financial Instruments – Available for Sale Assets	Fair values based on the following: <ul style="list-style-type: none"> <li>• assets quoted on a market – the market price</li> <li>• assets without an active market – valuation techniques such as net equity of subsidiary</li> </ul>
Pensions Assets	Fair values based on the following: <ul style="list-style-type: none"> <li>• quoted securities – current bid price</li> <li>• unquoted securities – professional estimate</li> <li>• unitised securities – current bid price</li> <li>• property – market value.</li> </ul>

The Statement of Accounts has been adjusted to reflect events after 31 March 2015 and before the date the Statement was authorised for issue [13/06/15] only where the events provide evidence of conditions that existed at 31 March.

### **1.3 Adjustments Between Accounting Basis and Funding Basis**

The resources available to the Council in any financial year and the expenses that are charged against those resources are specified by statute (the Local Government Act 2003 and the 2003 Regulations). Where the statutory provisions differ from the accruals basis used in the CIES,

adjustments to the accounting treatment are made in the Movement in Reserves Statement so that usable reserves reflect the funding available at the year-end. Unusable reserves are created to manage the timing differences between the accounting and funding bases. The material adjustments are:

<b>Expense</b>	<b>Accounting Basis in CIES</b>	<b>Funding Basis in MiRS</b>	<b>Adjustment Account</b>
Property, Plant and Equipment	Depreciation and revaluation/impairment losses	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Intangible Assets	Amortisation and impairment	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Heritage Assets	Impairment	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Investment Properties	Movements in fair value	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Revenue Expenditure Funded from Capital under Statute	Expenditure incurred in 2014/15	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Capital Grants and Contributions	Grants that became unconditional in 2014/15 or were received in 2014/15 without conditions	No credit	Capital Grants Unapplied Reserve (amounts unapplied at 31 March 2015) Capital Adjustment Account (other amounts)
Non-Current Asset Disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital Adjustment Account (carrying amount) Capital Receipts Reserve (sale proceeds and costs of disposal) Deferred Capital Receipts Reserve (where sale proceeds have yet to be received)
Pensions Costs	Movements in pensions assets and liabilities (see policy 1.8)	Employer's pensions contributions payable and direct payments made by the Council to pension funds for 2014/15	Pensions Reserve

Council Tax	Accrued income from 2014/15 bills	Demand on the Collection Fund for 2014/15 plus recovery of estimated deficit/share for 2013/14	Collection Fund Adjustment Account
Business Rates	Accrued income from 2014/15 bills	Budgeted income receivable from the Collection Fund for 2014/15 plus recovery of estimated deficit/share for 2013/14	Collection Fund Adjustment Account
Untaken Leave entitlements	Projected cost of untaken leave entitlements at 31 March 2015	No charge	Accumulated Absences Adjustment Account

#### 1.4 Post-Employment Benefits

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

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

- The NHS Pension Scheme, administered by NHS Pensions.

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

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

The Teacher's and NHS Scheme provides defined benefits to members, however, the arrangements for the teachers' scheme and NHS pensions mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant lines in the Comprehensive Income and Expenditure account are charged with the employer's contributions in year.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- the liabilities of the Devon County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method- i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to-date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond.

- the assets of Devon County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value

The change in the net pensions liability is analysed into the following components:

- **Service cost** comprising:

Current service cost – allocated in the CIES to the services for which the employees worked



Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Includes gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees such as the transfer of staff to an alternative supplier: Debited/Credited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs.

Net Interest on the net pension liability - the expected net increase in the present value of liabilities during the year as they move one year closer to being paid offset by the expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - debited to the Financing and Investment Income and Expenditure line in the CIES.

Administration Costs – debited to the Provision of Services in the CIES as part of Non Distributed Costs

• **Remeasurements** comprising:

Return on Plan Assets – this excluding amounts included in net interest on the net defined benefit liability. Any movement in year is an adjustment to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – any movement in year is an adjustment to the Pensions Reserve as Other Comprehensive Income and Expenditure.

**Payments to Fund:**

Contributions paid to the Devon County Council Local Government Pension Scheme - cash paid as employer's contributions to the pension fund in settlement of liabilities are not accounted for as an expense in the CIES.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy.

Termination benefits are charged on an accruals basis or as a provision to the appropriate service (or to the Non Distributed Costs line in the CIES where they relate to pensions enhancements) at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

**Local Government Reorganisation**

Torbay Council in 1998 agreed to fund a tax base share of Devon County's enhanced pension payments (unfunded benefits). A liability, based on IAS19 actuarial information provided to Devon County Council has been recognised with the corresponding balance held in the Pension Reserve. The movement in the IAS19 liability each year is recognised in Cost of Services and reversed in the Movement in Reserves statement. The payments in year to Devon County Council are recognised in the Cost of Services.

**1.5 Financial Instruments**

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to their contractual provisions and are initially measured at fair value.

Borrowings and investments are (generally) carried at their amortised cost. Annual debits and credits to the Financing and Investment Income and Expenditure line in the CIES for interest

payable and receivable are based on the carrying amount of the instrument, multiplied by its effective rate of interest. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For [most of] the instruments that the Council holds, this means that the amount presented in the Balance Sheet is the outstanding principal repayable or receivable (plus accrued interest); and interest debited/credited to the CIES is the amount payable for the year according to the instrument agreement. The interest owed/due is shown on the balance sheet as short or long term depending on the timing of the expected cash flow of the interest payment.

Changes in the fair value of financial assets, if material, that have a quoted market price and/or do not have fixed or determinable payments (available for sale assets) are recognised in the Balance Sheet and balanced by a debit or credit to the Available for Sale Reserve.

### **Assets carried at Fair Value through Profit and Loss**

The Council's holding with its funding manager has been designated as a Financial Asset at Fair Value through Profit and Loss. The definition is met as the Council's holding is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit making as the Fund Manger is a set a benchmark target to achieve for each year.

Any changes in the fair value of the asset are reflected in the carrying value of the asset and the changes in year credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

### **1.6 Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions such as developers' contributions under section 106 agreements, and donations (if any) are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with any conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the CIES until the Council has satisfied any conditions attached to the grant or contribution that would require repayment if not met.

The grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the CIES. The recognition of grants and contributions is on an accruals basis. Developer contributions under S106 agreements are presumed to have conditions unless clear evidence to the contrary that would require repayment if not met and are recognised as a receipt in advance.

### **1.7 Intangible Assets**

Subject to a de minimis of £50,000, expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Subsequent expenditure is charged to Services in the year it is incurred.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost

The depreciable amount of an intangible asset is amortised over its useful life, between 3 -10 years depending on the asset, to the relevant service line(s) in the CIES. An asset is tested for impairment whenever there is an indication that it might be impaired – any losses recognised are posted to the relevant service line(s) in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

### **1.8 Heritage Assets**

Subject to a de minimis of £50,000, expenditure on, or the value of donated heritage assets, are capitalised where the Council has information on the cost or value of the heritage asset. Within one location a number of articles have been grouped into a single collection which is accounted for as an individual Heritage asset.

### **1.9 Interests in Companies and other Entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries and associates. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost or fair value. For 2014/15 the value of the Council's interests in these companies, after consolidation of inter group balances, is not considered to be sufficiently material to require the production of group accounts for the Council.

The Council accounts for its investments in its subsidiary companies at fair value. This is taken to be the net equity of the company at each financial year end. The fair value is recognised as a long term investment with the balance held in the Financial Instruments available for sale reserve.

Any movement in fair value will be treated as a revaluation gain or loss unless the value falls below the initial recognition value (nominal value of the shares) when an impairment will be recognised. If the net equity of a subsidiary is negative the fair value is then recognised as nil.

The Council recognises the value of its other interests in companies, such as associates, at cost.

### **Torbay and South Devon Health and Care NHS Trust**

The Council has a "partnership agreement" with Torbay and South Devon Health and Social Care NHS Trust. The Council and the Trust are accounting for the partnership on the basis that the Council is funding the Trust to undertake delegated activities. The Trust will account for income and expenditure on the Adult Social Care functions in the appropriate service category and will account for the funding received for the Council as "providing" income. The Council will show the funding paid to the Trust for providing the delegated functions within its Income and Expenditure Account.

### **1.10 Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost and subsequently on an annual at fair value, based on the amount at which the asset which could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated.

Gains and losses on revaluation being posted to the Financing and Investment Income and Expenditure line in the CIES. The line is also credited/debited with gains/losses on the disposal of properties, measured as the difference between the carrying amount and sale proceeds.

### **1.11 Leases**

The Council's leases relate mainly to property where the Council both leases in and leases out property. The Council has considered all its leases for possible classification as finance or

operating leases. The Council presumes a lease to be an operating lease unless there is evidence to the contrary and it is material to the accounts that a lease is classified as a finance lease.

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. The land element is now assessed by reference to the prevailing land value in the locality of the asset. Over the five year rolling programme of valuations all land will be valued on this basis. Previously the land value was assumed to be 20% of the total value of the asset unless there was evidence to the contrary.

**As Lessee:** Rentals paid by the Council under operating leases are charged to the CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made, if material, on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal, with the gain/loss attributable to the difference between the carrying amount of the asset and the Council's net investment in the lease being credited/debited to the Other Operating Expenditure line in the CIES. The net investment in the lease is recognised as a lease asset in the Balance Sheet, net of any premium paid. Lease rentals receivable are apportioned between:

- a credit for the disposal of the interest in the property – applied to write down the lease asset
- finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

**As Lessor:** Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made, if material, on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

## 1.12 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of SeRCOP. The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

## 1.13 Property, Plant and Equipment

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

A general de-minimis limit of £25,000 is applied to recognition of expenditure on Property, Plant and Equipment. Exceptions to the de-minimis limit are made for projects or individual purchases under £25,000 where there are specific service requirements to do so e.g. school

minor improvement works which are funded under Special Government Initiatives and fleet vehicle purchases.

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Capital expenditure is not recognised until 31<sup>st</sup> March therefore no depreciation is charged in year of acquisition or enhancement. Where capital expenditure has been incurred, the expenditure in year is deemed to have increased the current value of the asset by a “pound for pound” amount.

Where, if capital expenditure is assessed as not adding value to the asset, the corresponding value will be written off as impairment.

Certain categories of Property, Plant and Equipment are measured subsequently at fair value – see policy 1 for details. Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. All asset valuations are carried out in accordance with the Statements of Asset Valuation Practices and Guidance notes published by RICS and CIPFA. The management of property valuations is undertaken by Chris Bouchard M.R.I.C.S. who is an employee of Torbay Development Agency. All planned revaluations in a financial year will be as at 1<sup>st</sup> April of that year which results in depreciation for a year being calculated on the revalued amount. The only exception would be if the total depreciation charge for the year would be materially incorrect. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Assets are assessed at each year-end as to whether there is any indication that items may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for in the same way as revaluation losses.

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives as estimated by the Council's valuer, making an allowance for any residual value. Annual depreciation is calculated based upon the Balance Sheet value for each asset as at 1<sup>st</sup> April for that year which will include any revaluations in year.

An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES against any receipts arising from the disposal as a gain or loss on disposal.

### Schools Recognition

The Council's recognition (or otherwise) of the different types of school assets are as follows:

Schools Type	Land	Buildings	Test
Community	On balance sheet	On balance sheet	Council Control
Academy	Off balance sheet	Off balance sheet	Academy freehold of long lease
Foundation	On balance sheet	On balance sheet	IFRS10 – subsidiary
Voluntary Aided	Off balance sheet	On balance sheet	Substance of arrangement
Voluntary Controlled	Off balance sheet	On balance sheet	Substance of arrangement
Playing Fields	On balance sheet	n/a	Council Control

Voluntary Aided Schools and Voluntary Controlled Schools are school where, usually, the land and buildings are owned by a diocese. Under IFRS10 maintained schools, including Voluntary Controlled and Voluntary Aided, meet the definition of entities controlled by the Council. Therefore all assets and liabilities of the school are recognised on the Council's balance sheet. In the absence of any lease arrangements between the diocese and governing body and, based on the substance of the arrangement, the assets have been recognised on the Council's balance sheet. The substance of the arrangement is that the asset has been used for school purposes for a number of years and at year end there is no expectation that the diocese will exercise its rights to take back the assets. In addition the Council is funding the school and the governing body are controlling the use of the asset as a school and are maintaining and insuring the assets.

Land owned by a diocese and used for school purposes, in the absence of lease arrangement or statutory transfer, has not been recognised as a Council asset due to the infinite life of land.

#### 1.14 Service Concessions - Private Finance Initiative (PFI)

If the Council is deemed to control the services that are provided under its PFI contracts, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge; the assets used are recognised on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year - debited to the relevant service in the CIES.
- finance cost - an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES.
- payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator. In addition the Council makes an annual revenue provision to the Capital Adjustment Account that is equal to the annual reduction in the liability to the contractor and correspondingly reduces the Council's Capital Financing Requirement.

Any lifecycle costs incurred by the contractor are assumed to be revenue in nature in maintaining the existing value of the asset. Any variations of a capital nature requested and funded by the school are treated as capital expenditure and capital resources outside the PFI contract.

### **1.15 Provisions**

Provisions are charged as an expense to the appropriate service line in the CIES where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

The Council is required to provide for the cost of any backdated NNDR refunds arising from appeals submitted to the Valuation Office that are successful. The Council has estimated the impact of appeals submitted by 31<sup>st</sup> March using historic information; however for appeals that could be submitted after 31<sup>st</sup> March that may relate to 2014/15 or earlier years NNDR income there is not enough certainty to enable a reliable estimate to be made. The Council's balance sheet only reflects the Council's 49% share of the provision.

### **1.16 Prior period Adjustments and Changes in Accounting Policies and Estimates**

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is material, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

### COLLECTION FUND SUMMARY ACCOUNT 2014/15

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.

Council tax £m	NNDR £m	Total £m		Council tax £m	NNDR £m	Total £m
<b>2013/14</b>				<b>2014/15</b>		
(87.6)	-	-	Gross Council Tax Payable for Year	(88.3)	-	-
23.4	-	-	Reduced Assessments	22.5	-	-
(64.2)	(35.9)	(100.1)	<b>Council Tax &amp; NNDR Receivable</b>	<b>(65.8)</b>	<b>(35.6)</b>	<b>(101.4)</b>
			<b>Expenditure:</b>			
			<b>Precepts and Demands</b>			
6.8	0	6.8	Police and Crime Commissioner for Devon and Cornwall	6.9	0	6.9
3.1	0.4	3.5	Devon & Somerset Fire & Rescue Authority	3.2	0.4	3.6
0	18.2	18.2	DCLG, (Central Government)	0	17.5	17.5
52.6	17.9	70.5	Torbay Council's Own Demand (Including Brixham Town Council)	52.8	17.2	70.0
62.5	36.5	99.0	<b>Total Precepts and Demands</b>	<b>62.9</b>	<b>35.1</b>	<b>98.0</b>
0	0.2	0.2	<b>Cost of Collection Allowance</b>	0	0.2	0.2
			<b>Distribution of Previous Years Estimated Surplus/(Deficit);</b>			
0.3	0	0.3	Police and Crime Commissioner for Devon and Cornwall	0.1	0	0.1
0.1	0	0.1	Devon & Somerset Fire & Rescue Authority	0	0	0
0	0	0	DCLG, (Central Government)	0	(1.7)	(1.7)
1.8	0	1.8	Torbay Council	0.7	(1.7)	(1.0)
2.2	0	2.2	<b>Total Distribution of previous year's Surplus/(Deficit)</b>	<b>0.8</b>	<b>(3.4)</b>	<b>(2.6)</b>
			<b>Bad and Doubtful Debts/Appeals</b>			
0.3	0.3	0.6	Write Offs	0.5	0.5	1.0
0.5	0.2	0.7	Impairment for Uncollectable debt	0.5	(0.2)	0.3
-	2.5	2.5	Provision for Appeals	0	(0.1)	(0.1)
0.8	3.0	3.8	<b>Total Bad &amp; Doubtful Debt and Appeals</b>	<b>1.0</b>	<b>0.2</b>	<b>1.2</b>
65.5	39.7	105.2	<b>Total Expenditure</b>	<b>64.7</b>	<b>32.1</b>	<b>96.8</b>
1.3	3.8	5.1	<b>(Surplus)/Deficit for Year</b>	<b>(1.1)</b>	<b>(3.5)</b>	<b>(4.6)</b>
			<b>Movement of Collection Fund Balance</b>			
(2.2)	0	(2.2)	Balance brought forward as at 1st April	<b>(0.9)</b>	<b>3.8</b>	<b>2.9</b>
1.3	3.8	5.1	(Surplus)/Deficit for Year	<b>(1.1)</b>	<b>(3.5)</b>	<b>(4.6)</b>
(0.9)	3.8	2.9	<b>Balance carried forward as at 31st March</b>	<b>(2.0)</b>	<b>0.3</b>	<b>(1.7)</b>
			<b>Balance Attributable to major precepting bodies</b>			
(0.1)	0	(0.1)	Police and Crime Commissioner for Devon and Cornwall	<b>(0.2)</b>	<b>0</b>	<b>(0.2)</b>
0	0	0	Devon & Somerset Fire & Rescue Authority	<b>(0.1)</b>	<b>0</b>	<b>(0.1)</b>
0	1.9	1.9	Central Government	<b>0</b>	<b>0.2</b>	<b>0.2</b>
(0.8)	1.9	1.1	Torbay Council	<b>(1.7)</b>	<b>0.1</b>	<b>(1.6)</b>
(0.9)	3.8	2.9	<b>Balance carried forward at 31st March</b>	<b>(2.0)</b>	<b>0.3</b>	<b>(1.7)</b>



## 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. In its Balance Sheet the Council includes the disaggregated amounts for the Major Precepting Bodies within its current assets and liabilities. The surplus attributable to Torbay Council has been treated as a credit on the Collection Fund Adjustment Account.

In addition to the statutory Collection Fund Statement, the Council in its Income & Expenditure account now reflects, as income in year, its share, based on precepting values, of the year end Collection Fund position. The Council on its balance sheet reflects its share of year end assets (arrears and impairment) and liabilities (prepayments) attributable to the Collection Fund. The balance is shown in the accounts of the individual precepting bodies.

Brixham Town Council, a local precepting authority, 'precepts' on Torbay Council as a billing authority to fund its activities, the precept for 2014/15 was £0.194m (£0.155m in 2013/14) and is received from council taxpayers in the town council's area. This precept is included in Torbay Council's demand on the collection fund.

### A) Council Tax Base 2014/15

The number of dwellings Band D equivalent for 2014/15 is required for the setting of the Council Tax. It is calculated prior to the start of the financial year by using the number of dwellings on the valuation list adjusted to set the number of chargeable dwellings per band. This is then adjusted for an appropriate level of reduced assessments (discounts) prior to the number of dwellings in each band being put in a ratio compared to Band D. For further details on this please see "Council Tax Base 2014/15" report from the Council meeting in December 2013.

For Council tax purposes the number of domestic properties in each band converted to a Band D equivalent for **2014/15** was as follows:

Valuation Band	Ratio to Band D	Amount payable by all council tax payers			Additional amount payable by council tax payers resident in the Brixham Town Council area		
		No Dwellings in valuation list	No of Dwellings Band D Equivalent	Average Council Tax Per Dwelling £	No Dwellings in valuation list	No of Dwellings Band D Equivalent	Average Council Tax Per Dwelling £
A	6/9	13,377	<b>4,700</b>	1,002.81	1,412	<b>498</b>	22.99
B	7/9	17,257	<b>8,984</b>	1,169.95	2,248	<b>1,170</b>	26.83
C	8/9	16,364	<b>10,980</b>	1,337.09	2,466	<b>1,653</b>	30.66
D	1	9,890	<b>8,324</b>	1,504.22	1,530	<b>1,288</b>	34.49
E	11/9	4,971	<b>5,270</b>	1,838.49	645	<b>685</b>	42.15
F	13/9	2,293	<b>2,969</b>	2,172.76	318	<b>394</b>	49.82
G	15/9	1,212	<b>1,809</b>	2,507.03	92	<b>143</b>	57.48
H	2	133	<b>190</b>	3,008.44	6	<b>7</b>	68.98
TOTAL		65,497	<b>43,226</b>		8,717	<b>5,838</b>	
Less Allowance for Non Collection			<b>(1,513)</b>			<b>(205)</b>	

@ 3.5% (3.5% 2013/14)					
<b>TAX BASE 2014/15</b>	<b>41,713.28</b>	(41,586.58 13/14)		<b>5,633.38</b>	(5,597.39 13/14)
Band D Council Tax (excluding Brixham Town Council precept)		1,504.22 (1,499.48 13/14)		Band D Council Tax (including Brixham Town Council precept)	1,538.71 (1,527.22 13/14)

## B) 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 rateable value as at 31st March 2015 was £98.1m (2013/14: £98.6m).

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 2014/15 was 47.01 pence per pound of rateable value and the non domestic rating multiplier was 48.2 pence per pound.

In April 2013 the NNDR retention scheme was introduced with Councils now responsible for a percentage share of all transactions in relation to NNDR income in their area. This to include movement up and down in NNDR income, (up to a safety net), which includes the payment of any outstanding NNDR appeals as at 31st March 2015 that have not yet been determined by the valuation office. Torbay Council as a unitary authority is responsible for 49% of the NNDR income, Devon and Somerset Fire authority 1% and the Department of Communities and Local Government 50%.

## **ANNUAL GOVERNANCE STATEMENT 2014/15**

## **ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2014/2015 –DRAFT**

### **Scope of responsibility**

Torbay Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. Torbay Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Torbay Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council's website at <http://www.torbay.gov.uk/DemocraticServices/documents/s22185/32%20Code%20of%20Corporate%20Governance.pdf> or can be obtained from Governance Support. This statement explains how Torbay Council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

### **The purpose of the governance framework**

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Torbay Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Torbay Council throughout the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

## **The Governance Framework**

### The Constitution

The Constitution sets out the main elements of the governance framework of Torbay Council, in particular how decisions are made and the procedures which are followed to ensure that these are efficient and transparent and that decision makers are accountable to local people. It explains that the Council is made up of the Elected Mayor and 36 Councillors who, together, are responsible for approving the Council's Budget and Policy Framework. The Mayor is responsible for decisions within this Budget and Policy Framework and is supported by Executive Lead Members who oversee and advise on specific areas. Matters outside the Budget and Policy Framework are referred to the Council for decision.

The Constitution includes Standing Orders, Financial Regulations and the Scheme of Delegated Powers. It is underpinned by Codes of Conduct for Members and Employees and a range of local protocols. The Constitution includes the Council's Code of Corporate Governance.

The Overview and Scrutiny Board is responsible for the overview and scrutiny function of the Council. It assists in the development of policy and holds decision makers to account. In addition, any five members of the Council can "call-in" executive decisions to the Overview and Scrutiny Board for further debate.

The Audit Committee is responsible for all internal and external audit matters as well as monitoring the effective development and operation of risk management and corporate governance in the Council. It meets on a quarterly basis.

The Standards Committee's remit includes the conduct of members and investigating complaints in respect of individual members. The Standards Committee promotes and embeds ethical standards.

Some regulatory functions remain the responsibility of the Council rather than the Mayor and most of these are delegated to a small number of committees appointed annually by the Council.

All members are inducted into the importance and processes of good governance and have informal and, if required, formal ways of raising governance issues with the Executive Director, Monitoring Officer, Chief Finance Officer and the Senior Leadership Team.

### The Corporate Plan and Decision-making

Included within the Policy Framework is the Council's Corporate Plan which was revised in March 2013 to reflect the priorities of the Council. The Council also has a Medium Term Resources Plan which is reviewed on an on-going basis to take into account new information and changed circumstances. Both of these documents provide a framework for planning and monitoring resource requirements.

Generally, the Council makes recommendations to the Mayor on executive decisions with the Mayor then taking those decisions at meetings of the Council. Council officers provide

appropriate advice at the points of consideration and decision and report to members on the progress and outcomes of decisions taken.

All reports to members include a section on the risks of the proposed decision and, prior to publication, these reports are cleared by the Chief Finance Officer or one of his senior staff.

The details of the significant risks associated with the proposed decision are included within the reports considered by the Council and the Mayor.

All meetings are open to the public but a small number of matters are considered in private when the press and public are formally excluded from meetings. It is the Council's objective to keep these private matters to a minimum with only those elements of reports that are considered exempt from publication being included within appendices. This ensures open and transparent decision making is undertaken at all times.

### Community and Service User Engagement

In developing proposals for service change, consultation with service users and the public is undertaken. In particular, the impact on vulnerable groups and those with characteristics protected under the Equality Act 2012 is assessed and documented in Equality Impact Assessments which are considered by decision-makers prior to decisions being made.

The Council's ViewPoint Panel is a residents' research panel which provides an opportunity for the people of Torbay to give their opinions on local and national issues. The panel is made up of a cross section of Torbay's population and is currently made up of approximately 600 residents.

There are also a number of Community Partnerships across Torbay which provide an opportunity for people who live or work in the different parts of Torbay to discuss issues of common concern, influence the way in which services are provided and improve their local area.

### Partnership Working

Appropriate arrangements in respect of service specific partnerships such as the Torbay and Southern Devon Health and Care NHS Trust, the Torbay Coast and Countryside Trust, TOR2, the English Riviera Tourism Company and the Economic Development Company are in place.

### Performance and Risk Management

The Council records performance information using performance-reporting software called SPAR.net. The performance reporting system is based on exceptions and, where performance is identified as a concern, appropriate corrective action will be considered, scrutinised and monitored. The Council also uses a range of benchmarking information to measure performance against comparators and to identify authorities from whom the Council could learn.

The Senior Leadership Team is responsible for the implementation and monitoring of the risk management strategy. A Strategic Risk Register is maintained which identifies strategic

risks facing the Authority together with clearly identified measures for mitigation. Directors and Executive Heads are responsible for managing risk within their Business Units.

### Senior Management

The **Head of the Paid Service** is the Executive Director who is responsible and accountable to the Council for all aspects of operational management.

The **Chief Financial Officer** (who during 2014/2015 was the Executive Head – Financial Services) has direct access to all members, the Executive Director and senior officers of the Council. He works with Directors and Executive Heads to identify any financial issues which may require management action. Regular discussions are held with the Mayor who is the Executive Member with responsibility for finance. The Chief Finance Officer has responsibility for ensuring the Council operates secure and reliable financial and accounting systems.

Members are briefed on key financial issues with revenue and capital budget monitoring reports being considered by the Overview and Scrutiny Board and the Council on a quarterly basis. The Council agrees the Treasury Management Strategy on an annual basis.

The **Monitoring Officer** is responsible to the Council for ensuring that agreed procedures and protocols are followed and that all applicable Statutes and Regulations are complied with.

Officers in politically restricted posts and those responsible for negotiating contracts are required to register their personal interests.

### Training and Information

The Council's Communication Strategy is communicated to staff and all stakeholders via regular internal and external updates using promotional material and the internet and intranet.

Internal communication approaches have been reviewed to ensure all staff are aware of all issues and new policies and practices. Newsletters and daily updates are sent to all staff to advise them of relevant information, HR policy and legislation changes. Learning and Development courses that are available and support for staff are also included within these.

There is a positive working relationship with Trades Unions through quarterly formal meetings and informal meetings with the Executive Director and consultation where appropriate.

The Council's intranet contains a range of policies, procedures and guidance for all staff including Human Resources (HR) Policies, i-Learn training modules, Information Governance Policies, Code of Conduct, Freedom of Information Policy, Data Protection Policy and the Corporate Plan and Constitution.

The Council has a Fraud and Corruption Policy which is reviewed regularly and has been communicated to all staff and is available on the Council's Intranet.

Corporate training needs are identified through the Senior Leadership Team. The Council has strongly supported staff development, particularly through programmes such as the Institute of Leadership and Management to develop Team Leaders and Managers.

Change management training has been communicated to all staff, including senior management, to support their understanding and implementation of change. Coaching and counselling are also offered as an additional means of support to individuals.

The Corporate Induction module on i-Learn signposts and informs new employees about the range of policies and procedures they need to be aware of, including the Code of Conduct, Information Governance, Acceptable Behaviour, Driver's Policy and Handbook and Whistleblowing Policies.

Managers are responsible for local induction arrangements with corporate induction courses being run on a regular basis.

All members have personal development plans. The Member Development Programme provides a structured approach to member development to ensure all members are supported in their roles. The majority of training is delivered through the Devon Member Development Shared Service.

### Complaints and Whistleblowing

The Council has a customer complaints recording, tracking and reporting system to which all staff have access via the Intranet. The system captures compliments, complaints, queries, enquiries and Local Government Ombudsman complaints. Letters from Members of Parliament are recorded as enquiries.

The system enables all complaints to be recorded and tracked with root causes identified providing the Council with a useful analysis of why complaints are being received. It also enables the tracking of the implementation of recommendations and actions.

The Information Compliance Team report to the Senior Leadership Team on a quarterly basis, these reports include the type of complaint, service area, outcomes and any learning points. This results in further actions being identified and implemented.

The Council's Whistleblowing Policy was agreed in July 2013 and is available on the Council's website and intranet site. The Council has an established phone line that any whistleblowing call can be made to and which goes directly to the area which has responsibility for dealing with these issues in the first instance. These are recorded and passed onto the appropriate part of the organisation to investigate and the outcomes are monitored.

### Internal Audit

The internal audit service is provided by Devon Audit Partnership (DAP). This is a shared service arrangement between Torbay, Plymouth City and Devon County Councils and is constituted under section 20 of the Local Government Act 2000. Devon Audit Partnership undertakes the role of auditing the Council's systems to give assurance to the organisation.



The Council's Internal Audit Plan, which is risk based, is agreed annually with the Senior Leadership Team and the Council's Audit Committee. This provides the basis for the review of internal control and governance within the Council and includes the following: -

- Annual reviews of the Council's key financial systems by Internal Audit against known and evolving risks.
- Cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks based on a detailed risk assessment. These reviews consider the strategic and operational risks identified in the Corporate Risk Register, as well as materiality, sensitivity and previous audit and inspection findings.
- Work in relation to the prevention of fraud and corruption and an allowance for the investigation of any potential irregularities identified either from audit work or through the Council's whistle-blowing policy.
- Advice and support to ensure future safeguards when implementing new systems.
- Value for money work in relation to assessing the efficiency, economy and effectiveness of the Council's operations and recommending improvements as necessary.

The Council also receives assurance from the NHS Internal Audit Confederation over the controls in operation at Torbay and Southern Devon Health and Care NHS Trust which covers the provision of the adult social services.

Achievement against the Audit Plan is reported to the Audit Committee on a twice yearly basis. This report also includes an opinion and assurance about the system of internal control throughout the Council.

Regular meetings are held between the Chief Finance Officer and a representative of the Devon Audit Partnership to discuss specific issues that have arisen.

### **Review of Effectiveness**

Torbay Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of the Devon Audit Partnership's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

As in previous years, Devon Audit Partnership undertook certain assurance work on behalf of the Council and to give assurance to the external auditors as part their audit opinion.

There has been and remains a significant financial challenge to Torbay Council. Over the last four years the Council has had to make difficult decisions about its services in light of the

Government's austerity measures and reduced levels of funding. The future of local government remains uncertain with further reductions in funding expected in 2016/204 and beyond.

It is estimated that the Council will have a budget gap of £33 million over the three years between 2016/2017 and 2018/2019, based on a financial base of £110 million in 2015/2016. This is a significant challenge especially when the majority of services are statutory. As we need to maintain these services, further pressures will be placed on the non-statutory services the Council provides.

The effectiveness of the governance framework has been evaluated over the course of the year against the seven core principles within Torbay Council's Code of Corporate Governance.

#### Focusing on the purpose of the authority and on outcomes for the local community and creating and implementing a vision for the local area

Progress against the actions within the current Corporate Plan has been reported to the Overview and Scrutiny Board. It is recognised that a new Corporate Plan will need to be prepared and adopted following the Local Elections. This will identify the ambitions for the Council over the next four years together with the principles by which the Council will need to operate given the continuing reduction in and demands on public sector resources.

Work continues on developing alternative delivery models for services due to the reducing resource base within the public sector and the increases in demand for services. It is expected that an Integrated Care Organisation will be in place during 2015 which will, amongst other things, deliver the Council's responsibilities in relation to Adult Social Care. This will build on the existing arrangements between the Council and the Torbay and Southern Devon Health and Care NHS Trust. Work is also starting on the creation of a Public Service Trust across agencies including Torbay Council, NHS organisations, schools and the Police and the development of an integrated delivery model for all aspects of Children's Services.

#### Members and officers working together to achieve a common purpose with clearly defined functions and roles

The Council's Constitution is continually reviewed throughout the year by the Monitoring Officer, Section 151 Officer and Governance Support Manager in consultation with the Mayor and Group Leaders whereby improvements and changes to the constitution are made and agreed.

Overall responsibility for the governance framework including the system of internal control rests with the Mayor and Executive Director and they receive regular reports from the Section 151 Officer on financial issues and the Monitoring Officer on legal issues as and when appropriate.

The Senior Leadership Team have reviewed the findings of the reviews of governance and other matters at Rotherham, Birmingham and Doncaster Councils to ensure that lessons are learnt and implemented within Torbay Council's governance arrangements.

An Induction Programme for all Councillors following the Local Elections in May 2015 is being prepared which will focus on the roles and responsibilities of Councillors as distinct from officers. The Programme will also highlight the strategic issues which will need to be addressed over the coming year.

Consultation is currently ongoing in relation to a proposed restructure of the Senior Leadership Team in order to re-align services within the organisation to meet future demands.

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

The Standards Committee has continued to meet on an annual basis. The Committee has provided feedback on training previously provided on the Code of Conduct. The feedback will be used to inform the development of the future training sessions on the Code of Conduct during the Member Induction Programme in May and June 2015.

An Independent Member of the Standards Committee attended a meeting of the Council to observe members' behaviour and to provide feedback. He found that the meeting was well chaired with balanced participation. He had highlighted that, whilst the use of social media by councillors during meetings provided a live update for those unable to attend, members needed to ensure that they were still engaged in the debate.

The Independent Member had also felt that the decision making process at meetings of the Council was confusing particularly when debating Mayoral decisions. As a result of the feedback, the Chairwoman of the Council now explains the decision making process prior to each debate.

The Council's Code of Conduct, Information Governance, Whistleblowing and Acceptable Behaviour policies are all available for all staff on the HR intranet page. They are also referred to within employees' terms and conditions of employment and are binding upon employees during the course of their employment with the Council. Reminders are sent out to staff via newsletters and internal communications.

The Council's induction programme also signposts to the above policies for new starters.

The Council is very mindful that staff are key stakeholders and as such a Staff Survey was run in July 2014 to gather the views of staff on a range of areas, including leadership and direction, communication and engagement, change management and training and development. As a result of this, an action plan has been developed to address certain areas, such as the development of core values and the introduction of a behaviours framework and talent management programme (towards the end of 2015).

A set of core values were developed from the results of the staff survey and were agreed by the Senior Leadership Team in December 2014. They are summarised in a core values statement as follows:-

*Torbay Council is committed to being **forward thinking, people orientated and adaptable** – always with **integrity**.*

To date, the core values have been communicated to staff via internal communications and further work to embed the values and ensure they are put into practice is ongoing. The staff survey action plan includes core HR processes, such as appraisal, induction, probation and learning and development activities that will need to be changed to include the values. They will also be visually represented in all Council internal communications, such as signage, stationery and newsletters.

The behaviours framework will also be key in ensuring that the core values are embedded in everyday working practices and in the interactions that staff have with their internal and external customers. This will be measured through regular performance management activities e.g. 1:1 meetings between managers and staff and through appraisal.

#### Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The Audit Committee and Overview and Scrutiny Board have met throughout the year to hold the Mayor and executive to account and therefore provide assurance.

The Audit Committee has received the Internal Audit Plan together with updates on the progress against the Plan. The Committee have held officers to account for areas where fundamental weaknesses have been found through Internal Audit reviews.

The Committee have received the Council's Statement of Accounts and Treasury Management Strategy.

The Committee have reviewed the Strategic Risk Register and have sought assurance on how operational risks are appropriately escalated to the Strategic Risk Register. The Council has formalised its new approach to strategic risk management with the new Performance and Risk Framework being considered by the Audit Committee in March 2015. It is proposed that dashboards of key performance indicators and strategic risks will be considered by the Senior Leadership Team on a monthly basis with the members challenging the information on a quarterly basis. A more robust process for ensuring that issues within individual Business Plans are escalated is now being put in place.

The Overview and Scrutiny Board has undertaken a range of work which it has identified through the Forward Plan together with issues arising from budget monitoring reports. Three decisions of the Mayor have been called-in over the course of 2014/2015.

The majority of the Board's work has been scrutinising the Mayor's budget saving proposals including reviewing the consultation which has been undertaken and challenging the Equality Impact Assessments. The Board has sought to ensure that those potentially impacted by the proposals have been able to raise their concerns prior to decisions being taken.

The Board also looked in depth at the impact of the reductions to the Supporting People budget alongside the impact of welfare reform within Torbay. Using the information received, the Board were then in a position to consider and provide feedback on the proposed Housing Commissioning Strategy for Torbay.

The Board have also continued to provide close scrutiny to the Children's Services revenue budget and the associated Cost Reduction Plan monitoring both the levels of spend within the Directorate and the performance against a range of targets and indicators.

The Council was appointed as a Scrutiny Development Area by the Centre for Public Scrutiny to consider how overview and scrutiny could assist the Council in its transformation work. The report from this piece of work was considered by both the Overview and Scrutiny Board and the Council with the principles for the future operation of overview and scrutiny being adopted and a framework for future working being identified to aid discussions with the incoming Mayor and Council following the Local Elections in May 2015.

The Monitoring Officer has prepared two reports on governance issues both of which have been considered by the Overview and Scrutiny Board. As a result, the Monitoring Officer will be undertaking a further review of Standing Orders in relation to the capital budget and will report her findings to the Mayor, Group Leaders and the Overview and Scrutiny Board in the new Municipal Year.

#### Developing the capacity and capability of members and officers to be effective

The Council has continued to deliver a Member Development Programme primarily through the Devon Shared Service. However, a detailed Member Induction Programme has been prepared to be run immediately post the Local Elections in May 2015.

The structure of the Senior Leadership Team was reviewed early in 2015 with the aim of ensuring the Council is able to ensure it is in the best position to face the challenges associated with reducing public sector spending. The risks associated with the restructure were identified within the report that was considered by the Council in February 2015 together with mitigating actions. In considering the proposed restructure, the Council was aware the five CIPFA principles which define the core activities of the Chief Financial Officer and concluded that there was no evidence to suggest that the proposed structure would prevent the Council from carrying out the statutory duties of the Chief Financial Officer.

Any potential impacts of the Senior Leadership Team restructure will be kept under review during 2015/2016.

The Council's Senior Leadership Team has been reviewing their Governance arrangements through their SLT meetings and membership. In September 2014, they all attended an away-day to agree the structure of their SLT meetings going forward. The team also came up with a common purpose statement to summarise their vision as a Senior Leadership Team, to underpin and make clear their role and responsibilities. This was communicated out to all staff and feedback was invited.

The SLT agenda has also changed to accommodate standing items such as Corporate Leadership and Direction, Governance, Capacity Building and Performance Challenge.

SLT have since been taking forward an action plan developed from the results of the staff survey 2014. This includes aspects such as communication with staff about change as well as improving the overall leadership capacity of SLT. A new leadership forum will be run on a

quarterly basis in order for SLT to present themselves as a group and to be able to communicate key messages and information to managers and partners.

Training for all staff on key policies, procedures and legislation is available through i-Learn, the Council's online learning portal. Face-to-face training is also available to all staff and during 2014/15 this included access to Change Management, Managing Mental Health and Customer Service. Management training is also available via the Institute for Leadership and Management.

#### Engaging with local people and other stakeholders to ensure robust public accountability

Consultation and service user engagement has continued to take place in relation to service change. The majority of this work has been related to the proposals for budget savings. The process for determining future service delivery is currently being discussed including how all members can be involved in earlier discussions and how the community can be engaged, in particular how the Community Development Trust (whose development has been supported by the council) can use its network to reach a wider range of sectors of the community.

#### Securing continuous improvement in service delivery and ensuring that its agreed policies, priorities and decisions are implemented on time, in a manner consistent with the needs of its user and in the most effective way

The Council's complaints system was evaluated through a staff questionnaire in 2014 which led to a number of improvements being made together with the provision of bespoke training to a number of staff. The quarterly reports are due to be renamed "Customer feedback reports". A deep dive is due to be undertaken in order to provide specific service failures to enable SLT to identify strategies to reduce/eliminate these problems. The monitoring of complaints handled by the Council seeks to secure the continuous of improvement of service delivery and to ensure compliance with legislation, policies and procedures.

The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government Framework.

#### **Significant governance Issues**

The internal audit report on Children's Services External Contracts (dated May 2015) identified fundamental weaknesses and found that there were issues arising from the examination of systems and controls which warranted inclusion in the Annual Governance Statement, namely:

"Torbay Council's Financial Regulations have not been adhered to in respect of the authorisation of expenditure for Residential and Independent Sector Placements where Torbay would be contractually liable for significant sums of monies.

This leads to overall concerns on the financial processes in place to safeguard assets not being adhered to. Steps need to be taken to ensure that the Financial Procedures and Constitution of Torbay Council are adhered to.”

An improvement plan was developed in response to this report and was outlined within the Annual Governance Statement for 2013/2014. The majority of that improvement plan has now been implemented with the outstanding matters being included in the Children’s Services Strategic Overview Plan which will be implemented within the next six months.

The internal audit report on Food Safety, Health and Safety, Licensing and Trading Standards (dated May 2015) identified fundamental weaknesses and found that there were issues arising from the examination of systems and controls which warranted inclusion in the Annual Governance Statement, namely:

“The need to sufficiently target available resource to the statutory functions such as high risk food premises inspections to minimise the critical risk to public safety and the associated risk of potential legal challenge and reputational risk to the Council.”

Additional resources were allocated to this service, and this in combination with a change to the Food Standards Agency codes of practice has enabled the team to meet its high risk inspection targets.

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

Steve Parrock  
Executive Director

Gordon Oliver  
Elected Mayor of Torbay

## GLOSSARY OF TERMS

### A

**Academy Schools** – These are independent schools publically funded from the Department of Education. Community (i.e. Council controlled) schools can transfer to academy status where they will often become charitable trusts.

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

**Actuarial Remeasurements** – For a defined pension scheme, the changes in actuarial deficits or surpluses that arise because events have not matched previous assumptions and/or actuarial assumptions have changed.

**Agency** – Under an agency arrangement the Council acts on behalf of other bodies, so in effect any monies that flow through the Council's accounts under that arrangement are not the Council's asset or liability.

**Amortisation** - a term used to refer to the charging of the value of a transaction or asset (usually related to intangible assets or deferred charges) to the Income and Expenditure Account over a period of time, reflecting the value to the Council (similar to the depreciation charge for tangible fixed assets).

**Amortised Cost** – the fair value of a financial instrument valued using the effective interest rate inherent in the contract.

### **Asset categories & their definitions:**

Property, Plant & Equipment category on the balance sheet is comprised of a number of sub categories:

Vehicles, Plant & Equipment – Assets used for operational purposes

Community Assets - assets which the Council intends to hold in perpetuity, which may have an indeterminate life and may have restrictions on disposal.

Surplus Assets – assets which are surplus to service needs but do not meet the criteria to be classified as Assets Held for Sale.

Infrastructure Assets – assets which form the underlying framework of the physical environment and by their nature cannot be sold. They include coastal defence and drainage systems and transport infrastructure assets. Transport infrastructure assets form the underlying transport framework of the physical environment and by their nature cannot be sold. They include highways, footways, and associated assets.

Assets under construction (Work in Progress) - where capital projects are incomplete and the assets under construction are not yet operational at the year end.

Other Land and Buildings – Assets used for operational purposes, including any operational heritage assets.



**Assets Held For Sale** – a category of property where the property is expected to be sold and is to be actively marketed so is classified as a current asset rather than a non current asset.

**Assets Under Construction** – expenditure incurred to date on an asset that is being constructed and at balance sheet date is not operational.

**Authorised for Issue Date** – The date up to which the Council will have included latest information of financial transactions that would have a significant impact on both the Accounts for the year or on the readers understanding of the Council's financial position.

**Available-for-sale assets** - (i.e investments and cash equivalents) - assets that have a quoted market price and/or do not have fixed or determinable payments.

## **B**

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

## **C**

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

**Capital Adjustment Account** - The Capital Adjustment Account represents the capital funding used to finance capital investment immediately from capital receipts and directly from revenue. It also contains amounts which in the past were required by statute to be set aside from capital receipts for the repayment of external loans. The Account is also used to compensate the General Fund Revenue Account for any excess of charges paid in respect of depreciation of assets over the statutory Minimum Revenue Provision which Council Taxpayers are required to bear. The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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

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

**Capital Receipts** - money received from the sale of assets or the repayment of grants and loans which is available for financing future capital expenditure.

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

**Cash & Cash Equivalents** – cash, bank balances and short term investments that are held for the primary purpose of short term cash flow purposes and not for investment purposes.

**CIPFA** – The Chartered Institute of Public Finance and Accountancy – the accounting institute that helps regulate and support accountants in the public sector.

**Code** – The CIPFA Accounting Code of Practice – the guidance for Council's in producing their IFRS compliant accounts.

**Collection Fund Adjustment Account** - The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and (from 2013/14) NNDR income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

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

**Contingent liability** - arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council

**Corporate and Democratic Core** – All activities which the Council engage in specifically because they are elected, multi-purpose authorities.

**Current** – a term applied to different categories of assets and liabilities to reflect that the asset or liability will be used or incurred within twelve months.

**Current Service Costs (pension)** – The increase in the present value of a defined benefit pension scheme's costs due to the employee service in the current period.

**Current Value** – The value that the majority of fixed assets are held at in the Council's balance sheet. This value reflects the most recent valuation of that asset or pending a valuation the current value is increased by capital expenditure on that asset.

**Curtailement** – For a defined benefit pension scheme, an event that reduces the expected years of future service of employees.

**Creditors** - amounts owed by the Council for work done, goods received or services rendered but for which payment had not been made by the end of the year.

## D

**DCLG** – the Department for Communities and Local Government, the central government department responsible for local government.

**DfE** – the Department of Education, the central government department responsible for a number of service including schools. (Formerly the DCSF – Department for Childrens, Schools and Families).

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

**Defined contribution / defined benefit schemes (Pension costs)** – There is an important distinction between defined contribution and defined benefit schemes in terms of pension accounting.

**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.

**Discount Rate** – A high quality corporate bond rate (usually AA) that the pension actuary uses to estimate the value of the pension liability

**DWP** – the Department of Work and Pensions – a central government department that deals primarily with welfare benefits.

## **E**

**EFW** – Energy From Waste facility, opened in April 2015 in Plymouth that disposes of Torbay's domestic waste

**ERTC** – English Riviera Tourism Company Ltd. A subsidiary of Torbay Council

**Exceptional Items** – Events or transactions that fall within the ordinary activities of the Council and need to be disclosed separately due to their size to give fair presentation of the accounts.

**Expected Rate of Return on Pension Assets** – The average rate of return, including income but net of scheme expenses, expected over the remaining life of the pension.

**Extraordinary Items** – Abnormal material items, are those which fall outside the ordinary activities of the Council and which are not expected to recur.

## **F**

**Fair Value** – the price an asset could be exchanged for in an arm's length transaction less any grant.

**Fair Value through Profit and Loss** – A classification of a type of financial asset. The Council's fund manager holding has been designated into this category as this holding meets the definition of this type of financial instrument – i.e. the holding is part of a portfolio of investments managed as a whole.

**Finance Lease** – A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Accounting guidance requires that it should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the

minimum lease payments including any initial payment, amounts to substantially all (normally ninety per cent or more) of the fair value of the leased asset. The present value is calculated by using the interest rate implicit in the lease.

**Financial Instrument** – a general term relating to a number of contractual arrangements, such as investments, borrowing, debtors and creditors, that a Council may incur. Based on this classification there are a number of additional accounting requirements relating to the fair value of an arrangement which may be different to the contractual amount due to an assessment of risk or value.

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

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

**Funded Pension Liabilities** – These are liabilities relating to pensions due in the future to members of a pension fund based on the “standard” entitlements within the scheme.

## G

**Grants – Receipts in Advance** – a grant from central government or other body that has conditions that will require repayment of the grant if not complied with. These grants are not recognised as income until the conditions are met.

## H

**Heritage Assets** - Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include historical buildings, archaeological sites, civic regalia, museum and gallery collections and works of art.

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

## I

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

**Intangible Assets** – (notably software) are recognised on the Balance Sheet at their cost of acquisition or development but only revalued in restricted circumstances.

**Interest Costs for Pensions (net)** – The expected increase in value for a defined benefit scheme, as it draws closer to settlement.

**Investment Properties** – land and buildings held only for the income stream or for capital appreciation.

**IFRS** – International Financial Reporting Standards. These are the financial “rules” that Council accounts will have to comply with for reporting periods from 2011/12. These rules should be consistently applied throughout all bodies throughout the world.

## J

**Joint Committee** – a formal committee of local authorities established under the provisions of Local Government Act 1972 usually for the management of a shared service.

**Joint Operation** - An arrangement under which participants engage in joint activities with joint control but do not create a legal entity

**Joint Venture** - An arrangement under which the participants engage in joint activities with joint control by means of a separate vehicle/entity.

## L

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

**Loans and receivables** (i.e investments and loans) - assets that have fixed or determinable payments but are not quoted in an active market

**Local Services Support Grant (LSSG)** – a new unringfenced grant from central government replacing the Area Based Grant.

**LOBO** – A “Lender Option, Borrowing Option” loan. Such a loan has a set rate for a defined period, after which point, the lender has the option of changing the rate. If that option is actioned the borrower then has the option to either accept the new rate or repay the loan.

## M

**MRP - Minimum Revenue Provision** - The minimum amount which must be charged to a Council's revenue account each year and set aside as provision for repayment of debt, as required by the Local Government Act 2003. For assets funded from unsupported borrowing this must be a “prudent” amount.

## N

**Net Book Value** – The amount at which fixed assets are included in the balance sheet.

**Net Debt** – The Council's borrowings less cash investments.

**New Homes Bonus Grant** – A general grant that is linked to the growth in the number of properties available for occupation either from a new home or an empty home brought back into use.

**NNDR** – National Non Domestic Rates, a national tax collected on a local level formally known as business rates.

**NNDR Retention Scheme** - This method of funding Council's moves Councils away from central government funding based on a service “needs” basis to one linked more to economic growth

**Non Current Assets** – assets, primarily land and buildings, that have an asset life of over one year and are not used for trading purposes.

**Non Distributed Cost** – a category within the Council's cost of services that represents past service costs (see below) and other costs that have not been attributed to specific services.

## O

**Operating Lease** – An operating lease is a lease other than a finance lease (please see above). The future obligations relating to operating leases are disclosed to provide the reader with an estimate of

the outstanding un discharged obligations in relation to such leases.

## **P**

**Past Service Cost** – The increase in the present value of a defined benefit pension scheme, as a result of improvements to, retirement benefits.

**Pensions Reserve - (Funded and Unfunded Liabilities)** - The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside, (usually by means of adjusting contribution rates), by the time the benefits come to be paid.

**PFI - Private Finance Initiative** – A method of using private investment to fund public sector schemes often supported by central government. The private sector typically builds an asset such as a school and then charges the Council over a period of typically 25 years to use and pay for the asset.

**Post Balance Sheet Events** – Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed.

**Prior Period Adjustments** – Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements.

**Precept** - A levy made by one statutory body on another to meet the net cost of its services.

**Precepting Body** – the statutory body that makes a “precept” on a Council that is responsible for collecting Council Tax in an area. Town and parish Councils are classified as a Minor Precepting body which means they precept their tax requirement on the Council who then include that amount in their precept.

**Projected unit method (Pensions costs)** – an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

**Property, Plant & Equipment** – a category of non current assets that show the carrying value of the Council's operational assets.

**Provisions** - amounts set aside for the purposes of providing for any liability or loss which is likely or certain to be incurred but is uncertain as to the amount or the date on which it will arise, e.g., bad debts.

**Prudential Code** – The CIPFA Prudential Code for Capital Finance in Local Authorities which is the guidance applicable from April 2004 for the greater freedom for Councils to borrow to fund capital investment (under the Local Government Act 2003). This Code requires the Council to set and monitor a suite of Prudential Indicators, including its Affordable Borrowing Limit, and establish its policy for using the new freedoms.

**Prudential Borrowing** – see Unsupported Borrowing

**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.

**REFCUS – Revenue Expenditure Funded from Capital Under Statute.** This represents expenditure that qualifies as capital for the purposes of government controls, but does not result in the acquisition, creation or enhancement of a tangible fixed asset. As a result the expenditure in this category and related grants or contributions are reported as revenue income and expenditure.

**Retirement Benefits** – All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

**Reserves** – are available for meeting general and future expenditure, for example, capital expenditure on new projects or unforeseen occurrences. Reserves may also be used to smooth the cost of certain activities over a number of years, e.g., crematoria replacement.

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

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

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

**Revenue Contribution to Capital Outlay** - the financing of capital expenditure, directly funded from revenue or reserves, rather than from borrowing or other sources.

**Revenue Expenditure** - expenditure on day-to-day expenses consisting mainly of employee costs, the running expenses of buildings and equipment and capital financing costs.

**Revenue Support Grant** – a General Government Grant funded from national taxation to support the Council's net expenditure.

## S

**Scheme Liabilities** – Money due on a defined benefit scheme due after the valuation date.

**Supported Borrowing** – the amount of historic Council borrowing towards which the Government

provides financial support through the annual Revenue Support Grant although this now reduced by the ongoing austerity funding reductions

## I

**TDA/TEDC** – Torbay Economic Development Company Ltd. A subsidiary of Torbay Council that trades as Torbay Development Agency (TDA)

**Total Cost** – the actual cost of services reflects all of the direct, indirect and overhead costs that have been incurred in providing the service, even where the expenditure is not under the control of the service's chief officer.

## U

**Unfunded Pension Liabilities** – these are pension costs arising from additional service awarded by a Council on a discretionary basis.

**Unsupported (or Prudential) Borrowing** – any borrowing the Council undertakes that is above and beyond the level of Supported Borrowing which the Government helps to fund and which therefore the Council has to fund completely from its own resources.

**Usable Reserves** – a heading that reflects the Council's reserves that can be used for supporting service delivery, including capital expenditure, in the future.

**Unusable Reserves** – a heading that reflects the Council's reserves that can not be used for supporting services. These tend to be the result of notional accounting entries such as those that reflect previous capital financing, asset revaluations and the pension reserve.

## V

**VRP – Voluntary Revenue Provision** – A additional sum that a Council can make to be set aside as provision for the future repayment of debt.