

## **Financial Services**



## **STATEMENT OF ACCOUNTS**

**2007/08**

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

# TORBAY COUNCIL

## STATEMENT OF ACCOUNTS 2007/2008

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# Explanatory Foreword

## 1 Introduction

The Statement of Accounts for 2007/08 has been prepared in accordance with “The Code of Practice on Local Authority Accounting in the United Kingdom 2007” published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This sets out the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local council. Any departures from this standard are disclosed in the notes to the accounts.

## 2 Financial Overview

The Council's aims and objectives for the 2007/08 year were set out in its Corporate Plan 2007-2011 and the Community Plan 'Turning the Tide for Torbay'. These are available on the Council's website:-

Corporate Plan 2007-2011 - <http://www.torbay.gov.uk/coporateplan2007-11.pdf>

Community Plan 'Turning the Tide for Torbay' - <http://www.torbay.gov.uk/communityplan.pdf>

A summary of the Council's budgetary position is included in the Medium Term Financial Plan 2007-2010 which is also available on the Council's website:-

<http://www.torbay.gov.uk/mt-financial-plan.doc>. Both the Corporate Plan and the Medium Term Financial Plan are being revised and an updated version will be placed on the website at the appropriate time.

The Council set a Revenue budget, including for the first time the local precept from Brixham Town Council, for 2007/08 of £101.4 million (an increase of 5.2% over 2006/07 excluding schools expenditure). This equated to a Band D Council Tax of £1,132.78 for the Torbay Council Tax requirement (excluding local precept), an increase of 4.5%. The Total Council Tax Band D including the Devon and Cornwall Police Authority, and Devon & Somerset Fire & Rescue Authority was £1,327.96, an overall increase of 4.5%. For the first time Brixham Parish Council issued a local precept on Torbay Council and included within Torbay's Income and Expenditure Account, which is received from the council taxpayers in the area covered by the Parish Council. The local precept (within the Brixham Parish Council area) for a Band D Council Tax was £31.90.

The Council's net budget requirement of £101.4 million was funded from Central Government grant and redistributed National Non-Domestic Rates (£46.0 million or 45.4%), with the balance funded from local taxpayers (£55.4 million or 54.6%). In addition the Council also generated income from services and other specific government grants, which supports the provision of services. This result is a gross Council budget for both revenue and capital of approximately £300 million.

The Council faced a number of financial pressures in 2007/08. The main pressure being from demand led services particularly within children's social care. The Council continued to gain from increased investment returns arising from proactive treasury management related to both higher than predicted cash levels for investment and from increased investment rates arising from the market instability linked to the "credit crunch". This enabled the Council to counteract any adverse movements and achieve a balanced budget for 2007/08. Also in 2007/08 the Council started fundamental changes to its management structure to move to a commissioning model for the provision of services.

There were a number of exceptional issues relating to 2007/08 that the Council has recognised in its accounts for 2007/08. These are provisions for the costs of the Council's management restructure of £0.5m to be funded from earmarked reserves, a provision for the costs of implementing the Local Pay Review (Pay Modernisation) throughout the Council of £2.9m to be funded from a capitalisation directive and earmarked reserves and a provision for possible payments arising from backdated holiday pay and backdated pay arrears of £1.1m to be funded from the 2007/08 budget. In recognising the potential for such costs the council is not conceding that any such costs will be paid in the future. These figures are estimates at the moment. The final figures will be known during 2008/09. Any overprovision will be released during 2008/09 or later years.

The Council's Overview and Scrutiny Board has met on the 9th June 2008 to consider the Provisional Revenue Outturn Report for 2007/08, was approved by Full Council on the 26<sup>th</sup> June 2008. The final net surplus for 2007/08 transferred to the General Fund Reserve was £0.2 million (or 0.20% of approved budget).

The Statement of Movement on the General Fund balance shows that the final outturn position for 2007/08 has left the Council's General Fund Balance at the year end at £3.0 million. (2006/07: £2.8million).

A Capital Outturn Report for 2007/08 was presented to the Council's Overview and Scrutiny Board on the 9th June 2008. The Report showed a net underspend in 2007/08 of £8.0m compared to the latest approved budget for the year of £39.4m. The underspend represents slippage in expenditure planning on some major projects, primarily related to Childrens' Services and Regeneration, for which the budget will be carried forward in the Capital Plan to fund the completion of the projects in future years.

### **3 Statement of Accounts**

The Statement of Accounts is over 160 pages long with its form and content mostly prescribed by legislation. As a result of the ongoing trend to make Local Authority accounts more comparable with standard sector accounts there have been further changes in the presentation of the accounts. These are mostly on the balance sheet and include changes in relation to the measurement of the Council's fixed assets linked to the introduction of a Revaluation Reserve. In addition the Council is now compliant with financial reporting standards in relation to Financial Instruments – (Financial Reporting Standards 25, 26 and 29). This has resulted in a reclassification of a number of items on the Council's balance sheet and, in some cases, a change in the carrying value of these assets now to be held at "Fair Value". These changes are effective from 1<sup>st</sup> April 2007 and do not require any restating of comparative 2006/07 information.

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

Balances are shown to the nearest £100,000 which is shown as £0.1 million in the accounts.

The technical changes in the financial statements are summarised in the table below: These changes do not, at present, have an impact on the "bottom line" in respect of the charge to the Council tax payer.

Previous Treatment	New Treatment from 1/4/07
<b>Balance Sheet</b>	
Fixed Assets held at value linked to latest certified valuation	Fixed Assets held at value linked to latest certified valuation increased by expenditure in year on that asset.
Use of Fixed Asset Restatement Account to reflect change in asset values	Use of Revaluation Reserve to reflect increased values of an asset between current value and historical cost.
Use of Capital Financing Account	Use of a Capital Adjustment Account
Assets and liabilities held in relevant categories and held at original transaction value	<p>Any assets or liabilities meeting the definition of a Financial Instrument now reclassified and, where required, revalued at Fair Value. These includes the following financial Instruments classifications:</p> <ul style="list-style-type: none"> <li>- Loans and Receivables</li> <li>- Soft Loans</li> <li>- Available for Sale Assets &amp; Liabilities</li> <li>- Impairment of Debt</li> <li>- Fair Value through Profit and Loss</li> <li>- Financial Guarantees</li> </ul> <p>In addition some of these assets and liabilities that were not previously on the Council's balance sheet are now recognised.</p>
<b>Income &amp; Expenditure Account</b>	
Interest due on investments and debt treated as an external debtor or creditor	Interest due on investments and debt now treated as a change in fair value on investments and debt
Financial Reporting Standards 25/26&29 in relation to Financial Instruments not applicable	<p>Initial recognition and revaluation of financial instruments at 1/4/07 reflected in Statement of Movement on General Fund Balance.</p> <p>Movements in financial instruments during 2007/08 now reflected in Income and Expenditure Account and, where relevant, in the Statement of Movement on General Fund Balance where the impact on Council tax is permitted to be reversed.</p>

### **3.1 Income and Expenditure Account**

This account summarises the resources that have been generated, consumed and set aside in providing services and managing Torbay Council during the last year. It includes all day-to-day expenses and related income including capital receipts on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year. However to view the overall impact of the Council's financial position for 2007/08 the surplus/deficit on this Account needs to be combined with the Statement of Movement on the General Fund Balance.

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

The statement includes all income related to the year both revenue and capital. Capital income such as capital receipts are included in this Account.

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

A summary of the Income and Expenditure Account and Statement of Movement on the General Fund Balance for 2007/08 is shown below in comparison with the revised budget (the detailed account is shown in the Core Financial Statements).

## Summary Income and Expenditure Account

	Budget	Net	Variance
	£m	Expenditure	£m
	2007/08	2007/08	2007/08
<b>Net Cost of Services</b>	<b>100.0</b>	<b>98.9</b>	<b>(1.1)</b>
Exceptional Items	0	4.6	4.6
(Gains)/Losses on disposal of Fixed Assets	0	0	0
(Surplus)/deficit on Trading Undertakings	0	(0.3)	(0.3)
Income from Investment Properties	(0.3)	(0.4)	(0.1)
Interest Payable and Similar Charges	5.7	5.5	(0.2)
Interest and Investment Income	(2.3)	(4.5)	(2.2)
Pension interest cost and expected return on pension asset	0.6	0.6	0
Brixham Parish Council	0.2	0.2	0
<b>Net Operating Expenditure</b>	<b>103.9</b>	<b>104.6</b>	<b>0.7</b>
<b>Funding:</b>			
General Government Grants	(6.6)	(6.6)	0
NNDR Redistribution	(39.4)	(39.4)	0
Demand on Collection Fund (Council Tax payers)	(54.9)	(54.9)	0
Transfer from collection fund in respect of surplus	(0.5)	(0.5)	0
<b>Net General Fund (Surplus)/Deficit</b>	<b>2.5</b>	<b>3.2</b>	<b>0.7</b>

## Statement of Movement on the General Fund Balance

	Budget	Net Expenditure	Variance
	£m	£m	£m
	2007/08	2007/08	2007/08
(Surplus)/Deficit for the year on the Income and Expenditure Account (from Summary Income & Expenditure Account above)	2.5	3.2	0.7
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(2.5)	(3.4)	(0.9)
<b>Increase in General Fund Balance for the Year</b>	<b>0</b>	<b>(0.2)</b>	<b>(0.2)</b>
General Fund Balance B/F	(2.8)	(2.8)	0
General Fund Balance C/F	(2.8)	(3.0)	(0.2)

### 3.2 Statement of Movement on the General Fund Balance

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

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

The statement reconciles the difference between the outturn on the Income and Expenditure account and the movement on the General Fund Balance.

### **3.3 Statement of Total Recognised Gains and Losses**

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

### **3.4 The Balance Sheet**

The Balance Sheet shows the overall financial position of the Council at 31<sup>st</sup> March 2008. It shows the balances and reserves of the Council together with the total assets and liabilities. The Balance Sheet includes all assets and liabilities of all activities of the Council excluding Trust Funds.

### **3.5 The Cash Flow Statement**

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

### **3.6 The Collection Fund**

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

The Brixham Parish Council 'local' precept does not appear in the Collection Fund but as a charge to the Council's Income and Expenditure Account.

### **3.7 Annual Governance Statement**

The Annual Governance Statement is the formal statement that recognises, records and publishes Torbay Council's governance arrangements. The statement has replaced the Statement of Internal Control. Although the Council is required to publish the statement as part of its Statement of Accounts there is a separate authorisation and approval process.

### **3.8 The Statement of Responsibilities for the Statement of Accounts**

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

## **4 Group Accounts**

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

The Council has assessed its relationship with other bodies and the following companies fall within the requirement to produce Group Accounts. Further detail of the Council's relationship with these bodies is contained in Note 37. A summary is listed below.

- Torbay Enterprise Agency Ltd. The turnover and assets held by this company are considered not significant enough to produce Group Accounts.
- Torbay Development Agency Limited. This company has had no financial transactions.
- SWERCOTS Ltd. This is the South West of England Regional Co-ordination of Trading Standards and represents the 15 South West Regional Authorities. The company was established in 2004 as a company limited by guarantee to operate 'Consumer Direct' a Central Government funded initiative. The payment of a £10 membership fee gives Torbay Council membership of the board with Torbay represented by a councillor. There are no transactions/liabilities associated with Torbay Council's membership other than the £10 initial one-off fee. For financial reporting this relationship has been treated as an investment.
- PLUSS Organisation is a company limited by guarantee. Devon County Council, Plymouth City Council, Torbay Council and Somerset County Council each have an equal share in the company. For financial reporting this relationship falls within the definition of an associate;

this technically requires the Council to produce group accounts. Group accounts have not been produced as the net assets and profit are not considered to be material. A summary of PLUS accounts for the part year 2007/2008 is disclosed in Note 37.

- South West Grid for Learning Trust. The company is limited by guarantee and was incorporated on 9<sup>th</sup> 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.
- Connexions Limited The Council has an equal share with 13 other public sector bodies in Devon and Cornwall Connexions limited which aims to help young people and adults engage in learning and work. This is a company limited by guarantee and the Council's liability is limited to £1.

## **5 Current Borrowing, Asset Utilisation and Investments**

As at 31<sup>st</sup> March 2008, the total external investments of the Council amounted to £78.1 million (31/3/07 £56.0m), which represents temporary short term cash deposits with borrowers on the Council's approved lending list. (Of these investments £10.5 million have been invested for over one year). As at the 31<sup>st</sup> March 2008 the Council had not borrowed any short term monies and had long term debt outstanding of £100.0 million (31/3/07: £92.8m) primarily to Public Works Loan Board (PWLB), of which none (31/3/07: £2.0m) is repayable within one year, principally to finance the costs of the Council's Capital Budget, (see Note 29).

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

Capital Expenditure in the year totalled £30.9 million (2006/07: £25.4m). The major areas of spending during the year were:

	2007/08
	£m
<b>Children</b>	
Pre-Primary and Primary Provision	2.2
Secondary Provision	4.7
All School Initiatives	4.2
Youth projects & support for private adaptations	0.1
<b>Housing</b>	
Grants for Private Sector Renewal & Disabled Facilities	0.7
Grants to Housing Providers	1.0
<b>Adults</b>	
Support for community and mental health facilities	0.6
IT Developments	0.2
<b>Highways &amp; Transport</b>	
Structural Maintenance of Highways & Bridges	0.9
Integrated Transport & Infrastructure Schemes	1.3
White Rock Infrastructure	2.5
<b>Community (Environment)</b>	
Flood Prevention & Coastal Defence	1.2
Fleet purchases ( Vehicles, plant & equipment)	1.4
Waste Initiatives	0.1
<b>Culture</b>	
Torre Abbey	3.0
Other projects	0.6
<b>Other Schemes</b>	
Business Incubation schemes	1.2
Brixham Regeneration	1.9
Harbours	1.5
Office Accommodation & Major Buildings	1.3
IT Developments	0.3
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>30.9</b>

<b>The Capital Expenditure was financed from:-</b>	<b>£m</b>
Borrowing – Supported by Government	7.1
Borrowing – Unsupported	2.2
Grants and Contributions	17.2
Capital Receipts	1.6
Earmarked Reserves & Revenue Budgets	2.8
<b>Total</b>	<b>30.9</b>

This expenditure, combined with the results of the Council's 5-year cyclical revaluation programme, resulted in an overall increase of £36 million in the Balance Sheet value of the Council's Tangible Fixed Assets (£31 million increase in 2006/07).

## **6 Local Government Pension Fund**

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

FRS 17 requires Local Authorities to recognise pension assets and liabilities within their accounts. The impact on the General Fund for 2007/08 of the FRS17 entries is neutral overall.

This liability is at a point in time reflecting short term stock market changes. The 'cash' implications for the Council of this liability will be reflected in the actuary's triennial valuation of the fund and the subsequent change in employer's contribution rates to meet the long term pension liabilities of the Council. Torbay, like most Councils, has a deficit. The last actuarial review of the Devon County Pension Fund took place as at 31<sup>st</sup> March 2007 and as a result Torbay's employer's contributions to the fund will be set at 17% plus a lump sum in relation to the transfer of staff to Torbay Care Trust of £0.3m for 2008/09 and for the next two financial years. For 2007/08 the rate was 17.90% as per the previous actuarial valuation.

The actuary has now estimated a net deficit on the funded liabilities within the Pension Fund as at

the 31<sup>st</sup> March 2008 of £45.9 million (2006/07: £59.0m), (excluding unfunded liabilities). This is a 22% decrease in estimated liabilities within the year of £13.1 million.

The actuary has also estimated the liability on the Council's unfunded liabilities, i.e. enhanced pension payments) to be £9.3 million at 31<sup>st</sup> March 2008 (2006/07: £9.7 million).

Therefore the Council's overall pension liability as at 31<sup>st</sup> March 2008 is £55.2 million. (£68.7 million 2006/07). The overall impact of this liability on the Council is to reduce its net assets by 24% as at 31<sup>st</sup> March 2008 (34% in 2006/07).

## **7 Changes in Accounting Policies**

The Council's Accounting policies were reviewed for 2007/08. The Council has fully incorporated any changes arising from the Code of Practice on Local Authority Accounting in the United Kingdom 2007 and CIPFA Local Authority Accounting Panel Bulletins.

For 2007/08 there were a number of significant changes to the accounts arising from both the ongoing convergence of public sector accounts with other sectors and from the introduction of three financial reporting standards in relation to financial instruments. These changes are significant and unlike 2006/07 where the changes, although significant, were primarily presentational. These changes are applicable from 1<sup>st</sup> April 2007, as a result comparative figures for 2006/07 are not restated and any new requirements are introduced as at 1<sup>st</sup> April 2007 and this recognition will be reflected in the 2007/08 figures.

The major change is the introduction of a Revaluation Reserve to reflect any changes in the value of fixed assets and the carrying value of the Council's fixed assets on the balance sheet will now not be based solely of the latest valuation, but will now reflect the latest valuation and any capital expenditure on that asset during the financial year. The Revaluation Reserve replaces the Fixed Asset Restatement Account and starts at 1<sup>st</sup> April 2007 with a zero balance. Any future balance on this account will reflect the difference between the current value of that asset compared to the historical cost of that asset.

There are a number of new accounting policies in relation to financial instruments. These in the main involve the treatment of (contractual) assets and liabilities such as investments, debt, borrowing at fair value or amortised cost rather than the historical purchase/trade price. Although the terminology is different and some of the values on the balance sheet and Income and

Expenditure Account will be calculated differently there are normally offsetting reserves or entries in the Statement of Movement of General Fund balance to “neutralise “the impact of these changes on council tax.

There are some changes for which there isn't an offsetting entry which will impact on the Council's activities. These include the recognition in the Council's accounts of the fair value of any guarantee given. This for any guarantee issued after November 2007 will need to be financed from the Council's budget. Also any gain or loss on the value of an investment or borrowing can only be reflected in the Income and Expenditure account when it has been realised as “cash”.

## **8 Prior Period Adjustments**

As the new accounting requirements are applicable from 1<sup>st</sup> April 2007 there are no prior period adjustments required

**TORBAY COUNCIL**

**CORE FINANCIAL STATEMENTS**

**2007/08**

## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2008

This account summaries the resources that have been generated, consumed and set aside in providing services and managing Torbay Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year. The Council is required to present the service expenditure analysis on a Total Cost basis, i.e. including support services, capital charges and FRS17 retirement benefits, in accordance with the CIPFA Best Value Accounting Code of Practice. This code promotes comparability and consistency for local authority financial reporting.

Restated Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
2006/07		2007/08	2007/08	2007/08
£m		£m	£m	£m
0.9	Central Services to the Public	14.5	(13.5)	1.0
19.6	Children's and Education Services	131.5	(106.8)	24.7
0.2	Court Services – Coroner	0.4	(0.1)	0.3
21.5	Cultural, Environmental and Planning Services	31.3	(9.6)	21.7
7.4	Highways, Roads and Transport Services	15.7	(7.9)	7.8
2.8	Housing Services	52.9	(51.0)	1.9
34.4	Social Care – Adults	41.6	(6.6)	35.0
3.5	Corporate & Democratic Core	5.7	(1.4)	4.3
0.7	Non Distributed Costs	2.5	(0.3)	2.2
0	Exceptional Costs (see note 17)	4.6	0	4.6
91.0	<b>Net Cost of Service</b>	<b>300.7</b>	<b>(197.2)</b>	<b>103.5</b>
(0.4)	(Gains)/Losses on disposal of Fixed Assets			0
n/a	Local Precept (Brixham Parish Council)			0.2
(0.2)	(Surplus)/ deficits on Trading Undertakings			(0.3)
(0.3)	Income from Investment Properties			(0.4)
5.4	Interest payable and similar charges			5.5
(0.3)	(Gains)/Losses on early settlement of borrowing			0
(3.3)	Interest and Investment Income			(4.5)
0.1	Central Government Amending Report			0
0.6	Pension interest cost & expected return on pension assets			0.6
92.6	<b>Net Operating Expenditure</b>			<b>104.6</b>

<b>INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2008</b>			
2006/07		2007/08	2007/08
£m		£m	£m
92.6	<b>Net Operating Expenditure brought forward</b>		<b>104.6</b>
(7.0)	General Government Grants (Revenue Support Grant)		<b>(6.6)</b>
(36.5)	NNDR Redistribution		<b>(39.4)</b>
(52.0)	Demand on Collection Fund (inc. Brixham Parish Council)		<b>(54.9)</b>
(0.8)	Transfer from collection fund in respect of surplus		<b>(0.5)</b>
<u>(3.7)</u>	<b>Total (Surplus)/Deficit</b>		<u><b>3.2</b></u>

### **STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2008**

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

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- The General Fund Balance shows whether Torbay Council has over or under spent against the council tax that it raised for the year, including the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.
- Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements

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

2006/07		2007/08
£m		£m
(3.7)	(Surplus)/Deficit for the year on the Income and Expenditure Account	<b>3.2</b>
3.6	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (Note 43)	<b>(3.4)</b>
(0.1)	Increase in General Fund Balance for the Year	<b>(0.2)</b>
(2.7)	General Fund Balance Brought Forward	<b>(2.8)</b>
<u>(2.8)</u>	General Fund Balance Carried Forward	<u><b>(3.0)</b></u>
(2.8)	Amount of General Fund Balance generally available for new expenditure	<b>(3.0)</b>
	Note:	
(3.4)	Amount of Earmarked Reserve held by schools under local management schemes	<b>(2.4)</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2008

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

2006/07		2007/08
£m		£m
(3.7)	(Surplus)/Deficit for the year on the Income and Expenditure Account	3.2
(11.8)	Surplus/(Deficit) arising on revaluation of fixed assets	(18.5)
n/a	(Surplus)/Deficit arising on revaluation of available-for-sale fixed assets	0
0.1	Actuarial (gains)/losses on pension fund assets and liabilities	(15.8)
0.3	Collection Fund balance attributable to Torbay Council	0.2
n/a	Recognition of Financial Instrument Restatement Account as at 1/4/07	0.2
<u>(15.1)</u>	<b>Total recognised gains for the year</b>	<u><b>(30.7)</b></u>

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



2006/07		<b>BALANCE SHEET AS AT 31<sup>st</sup> MARCH 2008</b>		<i>Note</i>	2007/08	
<b>Continued</b>						
£ m	£ m				£ m	£ m
	325.6	Brought forward				<b>354.5</b>
<b>Current Assets</b>						
0.8		Landfill Allowances (LATS)		25	<b>0.2</b>	
0.3		Stock and Work in Progress		45	<b>0.4</b>	
13.1		Debtors (net of provision for bad and doubtful debt)		11	<b>14.8</b>	
38.1		Temporary Investments		24	<b>67.6</b>	
1.9		Payments in Advance			<b>1.7</b>	
3.0		Cash and Bank			<b>2.3</b>	
	<u>57.2</u>					<b>87.0</b>
	382.8	<b>Total Assets</b>				<b>441.5</b>
<b>Current Liabilities</b>						
(2.0)		Long Term borrowing due within 12 months		29	<b>0</b>	
(16.6)		Creditors		10	<b>(20.1)</b>	
(0.9)		Deferred Liabilities due within 12 months		29	<b>(0.9)</b>	
(2.3)		Bank Overdraft			<b>(0.6)</b>	
(3.2)		Receipts in Advance			<b>(5.2)</b>	
(4.0)		Capital Grants and Contributions Unapplied			<b>(17.2)</b>	
	<u>(29.0)</u>					<b>(44.0)</b>
	353.8	<b>Total Assets less Current Liabilities</b>				<b>397.5</b>
(90.8)		Borrowing repayable within a period in excess of 12 months		29	<b>(100.0)</b>	
(22.3)		Deferred Liabilities		29	<b>(21.4)</b>	
(35.8)		Government Grant & Contributions Deferred account		23	<b>(49.3)</b>	
(1.3)		Creditors due in excess of 12 months		10	<b>(1.9)</b>	
(1.5)		Provisions		35	<b>(5.4)</b>	
n/a		Financial Guarantees		18	<b>(0.2)</b>	
(68.7)		Liability related to defined benefit pension scheme		33	<b>(55.2)</b>	
	<u>(220.4)</u>					<b>(233.4)</b>
	133.4	<b>Total Assets less Liabilities</b>				<b>164.1</b>

2006/07		BALANCE SHEET AS AT 31 <sup>st</sup> MARCH 2008	Note	2007/08	
		Continued			
£ m	£ m			£ m	£ m
		<b>Financed by:-</b>	39		
	n/a	Revaluation Reserve		<b>18.3</b>	
174.0		Capital Adjustment Account		<b>173.8</b>	
2.2		Usable Capital Receipts Reserve		<b>1.9</b>	
(68.7)		Pension Reserve		<b>(55.2)</b>	
	n/a	Available-for-sale Financial Instruments Reserve		<b>0</b>	
	n/a	Financial Instrument Adjustment Account		<b>(0.4)</b>	
	0	Equal Pay Back Pay Account		<b>(2.6)</b>	
18.9		Earmarked Reserves		<b>22.3</b>	
3.4		Schools Balances		<b>2.4</b>	
2.8		General Fund Reserve		<b>3.0</b>	
0.3		Collection Fund		<b>0.1</b>	
0.5		Trading Operations Reserves		<b>0.5</b>	
<u>133.4</u>		<b>Total Net Worth</b>		<u><b>164.1</b></u>	

Note: As part of the new financial reporting requirements the 2006/07 closing balances for the Fixed Asset Restatement Account and Capital Financing Account have been consolidated into the (new) Capital Adjustment Account. The Revaluation Reserve replaces the Fixed Asset Restatement Account and has a zero balance as at 1<sup>st</sup> April 2007. This account reflects the increase in value of the current value of fixed assets compared to their historical cost.





<b>Management of Liquid Resources</b>				
<b>2006/07</b>			<b>2007/08</b>	
£ m	£ m		£ m	£ m
(8.7)		Net Increase/(decrease) Short term investments	<b>27.3</b>	
16.0		Net Increase/(decrease) in long term investments	<b>(8.0)</b>	
	<u>7.3</u>			<b>19.3</b>
<b>Financing</b>				
<b>2006/07</b>			<b>2007/08</b>	
£ m	£ m		£ m	£ m
		<b>Cash Outflows</b>		
64.8		Repayment of Amounts Borrowed	<b>2.0</b>	
1.0		Devon County Transferred Debt	<b>0.9</b>	
			<u>2.9</u>	
65.8				
		<b>Cash Inflows</b>		
(70.8)		New Loans Raised	<b>(8.0)</b>	
	<u>(5.0)</u>			<b>(5.1)</b>
	<u>0.3</u>	<b>Net (Increase)/Decrease in Cash</b>		<b>(1.0)</b>

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## NOTES TO THE CORE FINANCIAL ACCOUNTS

### 1 Acquired or Discontinued Operations

There are no acquired or discontinued operations.

### 2 Agency

Torbay Council undertakes work for South West Water Services Ltd on Developer Services work under a partnership agreement with Pell Frishman. The turnover of this work in 2007/08 was under £0.1 million (£0.1 m 2006/07).

### 3 Audit Costs

In 2007/08 Torbay Council incurred the following fees relating to external audit and inspection:

2006/07 £000's		2007/08 £000's
233	Fees payable with regard to external audit services carried out by the appointed auditor, PricewaterhouseCoopers LLP	255
126	Fees payable in respect of statutory inspection under s10 Local Government Act 1998	22
44	Fees payable to the Audit Commission for the certification of grant claims and returns by appointed auditor, PricewaterhouseCoopers LLP	30
0	Fees payable in respect of any other services provided by the Appointed Auditor.	14

#### 4 Building Control Trading Account

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

<b>Building Regulations Charging Account 2007/08</b>			
	<b>Chargeable</b>	<b>Non – Chargeable</b>	<b>Total Building Control</b>
	<b>2007/08</b>	<b>2007/08</b>	<b>2007/08</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
<b>Expenditure</b>			
Employee Expenses	270	140	410
Transport	13	7	20
Supplies and Services	14	7	21
Central Support	67	30	97
<b>Total Expenditure</b>	<b>364</b>	<b>184</b>	<b>548</b>
<b>Income</b>			
Building Control Fees	(425)	0	(425)
Other Income	0	(7)	(7)
<b>Total Income</b>	<b>(425)</b>	<b>(7)</b>	<b>(432)</b>
<b>(Surplus) / Deficit for the Year</b>	<b>(61)</b>	<b>177</b>	<b>116</b>
<b>Comparatives for 2006/07:</b>			
	£000	£000	£000
Expenditure	325	213	538
Income	(385)	(7)	(392)
<b>(Surplus) / Deficit for the Year</b>	<b>(60)</b>	<b>206</b>	<b>146</b>

## 5 Cash Flow Statement - Analysis of Other Government Grants

2006/07	Related Service Area	2007/08
£m		£m
86.2	Education	77.4
6.8	Social Care	5.8
5.9	Supporting People	5.8
11.9	Council Tax Benefit	10.9
8.8	Other Grants	24.1
<b>119.6</b>		<b>124.0</b>

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

<b>Reconciliation of Movements in Cash &amp; Net Debt</b>			
2006/07		2007/08	
£ m	£ m	£ m	£ m
(12.3)		(18.4)	
10.1		0.9	
0.2		2.3	
	(2.0)		(15.2)
8.7		(27.3)	
(16.0)		8.0	
5.0		5.1	
0.3		(1.0)	
	(2.0)		(15.2)

## 7 Cash Flow Statement - Movement of Financing and Liquid Resources

<b>Movement of Financing and Liquid Resources (Principal values)</b>			
	As at 31 <sup>st</sup> March 2007	As at 31 <sup>st</sup> March 2008	Movement in year
	£m	£m	£m
<b>Financing Items</b>			
External Long Term Borrowing (net movement)	92.8	<b>98.8</b>	6.0
Devon County Transferred Debt	23.2	<b>22.3</b>	(0.9)
	116.0	<b>121.1</b>	5.1
<b>Liquid Resources</b>			
Temporary Investments	(38.1)	<b>(65.4)</b>	(27.3)
Investments (over one year)	(18.0)	<b>(10.0)</b>	8.0
	(56.1)	<b>(75.4)</b>	(19.3)
<b>Cash Related</b>			
Net Cash Overdrawn	2.3	<b>0.6</b>	(1.7)
Cash In Hand	(3.0)	<b>(2.3)</b>	0.7
	(0.7)	<b>(1.7)</b>	(1.0)
<b>Total Movement of Financing &amp; Liquid Resources</b>	59.2	<b>44.0</b>	<b>(15.2)</b>

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

## 8 Cash Flow Statement – Reconciliation of Revenue Cash Flow

Reconciliation of Income & Expenditure Account to Revenue Cash Flow				
2006/07			2007/08	
£ m	£ m		£ m	£ m
	(3.7)	Income & Expenditure Account		3.2
	(4.9)	Depreciation amortisation and impairment		(6.7)
	11.8	Revaluation		18.3
	0.4	Profit on disposal		0
	(15.1)	Reserves and other non cash movements		(22.4)
		Items classified elsewhere on cash flow:		
(5.2)		Interest Paid	(5.2)	
5.0	(0.2)	Interest Received	2.9	(2.3)
	0	Increase/(decrease) in stock and work-in-progress		0
	(0.2)	(Increase)/decrease in creditors/receipts in advance		(6.1)
	0.7	(Increase)/decrease in provisions		(3.9)
	(1.4)	Increase/(decrease) in debtors/payments in advance		1.3
	0.3	Contributions (to)/from Collection Fund		0.2
	<u>(12.3)</u>	<b>Revenue Activities Net Cash Flow</b>		<u>(18.4)</u>

## 9 Contingent Liabilities

### PLUSS Limited

In 2005 the Council agreed to guarantee an overdraft to Barclays Bank to a value of £0.125 million.

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

The Council has also given pension guarantees to both the Chief Executive for the South West Grid for Learning which is estimated to be £400 and the Council staff that transferred to National Car Parks is estimated to be £24,000.

On the 31<sup>st</sup> March 2008 as part of the changes in governance for 2008/09 for Devon and Cornwall Connexions Limited the Council has given a pension guarantee. Based on an actuarial valuation of Connexion's pension position as at 31<sup>st</sup> March 2008 the current liability to Torbay of the guarantee is nil.

## 10 Creditors

This heading reflects the value of monies owed by the Council as at 31<sup>st</sup> March 2008.

### 10.1 Creditors due within 12 months

31 <sup>st</sup> March 2007		31 <sup>st</sup> March 2008
£ m		£ m
11.6	Creditors	13.1
2.1	Revenue & Customs	2.1
2.1	Torbay Care Trust	4.1
0.8	Devon County Pension Fund	0.8
<u>16.6</u>		<u>20.1</u>

### 10.2 Creditors due in excess of 12 months

31 <sup>st</sup> March 2007		31 <sup>st</sup> March 2008
£ m		£ m
0.1	Legal Agreements and Bonds	0.2
0.3	S106 Agreements	0.6
0.9	PFI Renewal Fund	1.1
<u>1.3</u>		<u>1.9</u>

## 11 Debtors

This heading reflects the value of monies owed to the Council as at 31<sup>st</sup> March 2008.

31 <sup>st</sup> March 2007 £ m		31 <sup>st</sup> March 2008 £ m
	Debtors meeting the definition of a Financial Instrument	
4.0	Sundry Debtors	2.8
7.5	Accrued income	9.6
	Significant debtors are:-	
1.0	- NNDR Payments to Pool	0.9
1.1	- Revenue & Customs re VAT	1.5
0.2	Liability Orders for Community Charge, Council Tax and NNDR	0.3
1.4	Housing Benefit Recovery Control	1.4
15.2	Sub Total – Debtors- Financial Instruments	16.5
2.3	Council Tax Arrears	2.5
0.7	NNDR Arrears	0.7
18.2	<b>Total Debtors</b>	<b>19.7</b>
	Impairment	
(1.9)	Impairment – Other Debtors	(1.6)
(1.3)	Housing Benefit recovery	1.3
(0.3)	NNDR arrears	(0.3)
(1.6)	Council Tax arrears	(1.7)
13.1	<b>Total</b>	<b>14.8</b>

## 12 Dedicated Schools Grant (DSG)

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

The Council has fully deployed the DSG grant to support the Schools Budget. This was evidenced by the Chief Financial Officer's certification of the Section 52 (Schools outturn) statement to the Department for Children, Schools and Families.

Details of the deployment of DSG receivable for 2007/08 are as follows:

<b>Schools Budget Funded by Dedicated Schools Grant</b>						
	<b>2006/07</b>			<b>2007/08</b>		
	<b>Central Expenditure</b>	<b>Individual Schools Budget</b>	<b>Total</b>	<b>Central Expenditure</b>	<b>Individual Schools Budget</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Original grant allocation to Schools Budget for the current year in the authority's budget	(7.6)	(55.7)	(63.3)	<b>(9.7)</b>	<b>(57.2)</b>	<b>(66.9)</b>
<b>DSG receivable for the year</b>	(7.6)	(55.7)	(63.3)	<b>(9.7)</b>	<b>(57.2)</b>	<b>(66.9)</b>
Over / (underspend) brought forward	0	0	0	<b>0.1</b>	<b>0</b>	<b>0.1</b>
<b>DSG available for the year</b>	(7.6)	(55.7)	(63.3)	<b>(9.6)</b>	<b>(57.2)</b>	<b>(66.8)</b>
<b>Actual expenditure for the year</b>	7.7	55.7	63.4	<b>9.6</b>	<b>57.2</b>	<b>66.8</b>
<b>Over / (under) spend for the year</b>	0.1	0	0.1	<b>0</b>	<b>0</b>	<b>0</b>

### 13 Deferred Charges

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

	<b>Balance 1st April 2007 £ m</b>	<b>Expenditure In Year £ m</b>	<b>Discharged £ m</b>	<b>Balance 31st March 2008 £ m</b>
Private Sector Grants for Renewal & Disabled Facilities	0	1.4	(1.4)	0
Grants to Housing providers	0	0.3	(0.3)	0
Social Care Grants	0	0.4	(0.4)	0
Other Grants	0	0.3	(0.3)	0
Expenditure on Voluntary Aided /Controlled Schools	0	1.2	(1.2)	0
Expenditure on Non Council assets	0	0.1	(0.1)	0
<b>Total</b>	<b>0</b>	<b>3.7</b>	<b>(3.7)</b>	<b>0</b>

### 14 Developer Contributions (Section 106 Receipts)

Receipts under Section 106 (of the Town & Country Planning Act 1990) are contributions payable by landowners/developers under planning agreements towards funding any increased demand for Council services which results from granting planning permissions, e.g. towards provision of school places, highway improvements, new transport links, affordable housing (if not provided on site) and on-going maintenance of public amenities. The sums are payable when trigger points are reached during the developments. The sums received can only be spent in accordance with the agreements with the developers. Any unspent amounts are held in the Balance Sheet in the Capital Contributions Unapplied Account (capital contributions) or Receipts in Advance (revenue contributions) or as a creditor (if the S106 has conditions that may require repayment) until

required. The Section 106 balances held at 31 March 2008 are as follows –

2006/07		2007/08
£m		£m
	<b>Capital Contributions -</b>	
0.4	- Capital Contributions unapplied	<b>0.3</b>
0.3	- Creditors	<b>0.7</b>
0.7		<b>1.0</b>
0.7	<b>Revenue Contributions</b>	<b>1.1</b>

## 15 Employees

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

Number of Employees	Remuneration Band	Number of Employees
2006/07		2007/08
27 (18)	£50,000 to £59,999	<b>28 (20)</b>
6 (3)	£60,000 to £69,999	<b>12 (6)</b>
6 (4)	£70,000 to £79,999	<b>6 (3)</b>
2 (1)	£80,000 to £89,999	<b>3 (2)</b>
1 (0)	£90,000 to £99,999	<b>1 (0)</b>
1 (0)	£100,000 to £109,999	<b>0</b>
0	£110,000 to £119,999	<b>0</b>
0	£120,000 to £129,999	<b>0</b>
1 (0)	£130,000 to £139,999	<b>1 (0)</b>
0	£140,000 to £149,999	<b>0</b>
0	£150,000 to £159,999	<b>1 (0)</b>
44 (26)		<b>52 (31)</b>

Remuneration for these purposes includes all sums paid or receivable by an employee and sums due by way of allowance (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash.

## **16 Events after the Balance Sheet Date & Authorised for Issue Date**

### **Authorised for Issue date**

The 2007/08 Statement of Accounts was authorised for issue by the Chief Finance Officer, R Thorpe BA CPFA, Director of Finance on the 20th June 2008. Events after the 'authorised for issue' date have not been recognised in 2007/08 Statement of Accounts. This date is the date that the 2007/08 Statement of Accounts was issued to be a public document to be tabled to Council Member's for both scrutiny and approval by Members. At this date the Accounts are subject to external audit.

### **Events After Balance sheet date**

From 1<sup>st</sup> April 2008 Devon and Cornwall Connexions company ownership changed, and is now a local authority controlled company owned by Torbay, Devon, Cornwall and Plymouth Councils.

## **17 Exceptional Items**

There were a number of exceptional issues relating to 2007/08 that the Council has recognised in its accounts for 2007/08. These are provisions for the costs of the Council's management restructure of £0.5m to be funded from earmarked reserves, a provision for the costs of implementing the Local Pay Review (Pay Modernisation) throughout the Council of £2.9m to be funded from a capitalisation directive and earmarked reserves and a provision for possible payments arising from backdated holiday pay and backdated pay arrears of £1.1m to be funded from the 2007/08 budget. These figures are estimates at the moment, the final figures will be known during 2008/09.

For the costs associated with the implementation of the local pay review the Council has used Regulation 5 (30a) of the Local Authorities Capital Finance and Accounting (Amendment)(England) Regulations 2007 (Statutory Instrument 2007/573 which introduced a new power to provide discretion to Councils not to charge (to Council Tax) the costs of implementing the local pay review in the year the costs are first recognised. As a consequence a credit of £2.7m is shown within the Statement of Movements on the General Fund Balance offset by the corresponding entry in the Equal Pay Back Pay account on the Council's balance sheet.

## 18 Financial Guarantees

### Torbay Coast and Countryside Trust

The Council has agreed to act as a guarantor to the Torbay Coast and Countryside Trust for £950,000. This is relating to a bank loan and an overdraft facility, in respect of capital work and initial trading at Ocombe Farm. The loan was taken out in 2005 and is repayable over 10 years.

Under the new Financial Instruments accounting requirements, as this guarantee was amended in 2006/07, this guarantee was recognised on the Council's balance sheet at a fair value of £71,000 as at 1<sup>st</sup> April 2007. As at 31<sup>st</sup> March 2008 the fair value of this guarantee was increased to £237,000. This increase has been reflected in the Council's Income and Expenditure Account and balance sheet. Under Statutory Instrument 414/2008 (30F) the Council is allowed to neutralise the overall impact of this guarantee on its accounts until the "risk subsists".

Note: Under this legislation any new guarantee agreed after 9<sup>th</sup> November 2007 does not have this protection and will become a charge to be funded.

## 19 Financial Instruments – Recognition and Restatement at 1<sup>st</sup> April 2007

The changes in carrying values and recognition in the Council's accounts for the initial recognition and restatement of financial assets and liabilities as Financial Instrument as 1<sup>st</sup> April 2007 to meet the new Financial Reporting Standards are as follows:

### Statement of Movement of General Fund Balance

Financial Instrument	£m	Note
Soft Loan to Pluss	0.12	Initial Recognition of loan in 2005
Soft Loan to Pluss	(0.02)	Interest on loan to 31/3/07
Soft Loan to Pluss	(0.10)	Reversal of Impact on Accounts
Guarantee to TCCT	0.07	Fair Value as at 31/3/07
Guarantee to TCCT	(0.07)	Reversal of Impact on Accounts
Barclays LOBO loan	0.80	Amortised Cost to 31/3/07
Barclays LOBO loan	(0.80)	Reversal of Impact on Accounts

## Balance Sheet – Financial Instrument Adjustment Account

Financial Instrument	£m	Note
Soft Loan to Pluss	(0.10)	Change in carrying value
Soft Loan to Pluss	0.10	Balance to Financial Instrument Adjustment Account
Guarantee to TCCT	(0.07)	Fair Value as at 31/3/07
Guarantee to TCCT	0.07	Balance to Financial Instrument Adjustment Account
Barclays LOBO loan	(0.08)	Change in carrying value
Barclays LOBO loan	0.08	Balance to Financial Instrument Adjustment Account

The overall impact of these changes on the Financial Instrument Adjustment Account as at 1<sup>st</sup> April 2007 is £0.25 million.

In addition there have been a number of reclassifications of assets and liabilities within categories on the balance sheet but this has not resulted in any changes in values.

## 20 Financial Instruments

- 20.1 The Financial Instruments disclosed on the Balance Sheet are made up of the following categories of Financial Instrument. Note there are no comparative figures for 2006/07.

<b>Financial Instruments</b>	<b>Long Term</b>		<b>Current</b>	
	31/3/07	31/3/08	31/3/07	31/3/08
	£m	£m	£m	£m
<b>Loans and Receivables:</b>				
- Investments	n/a	10.5	n/a	53.4
- LATS Allowances (see note 25)	n/a	0.1	n/a	0
- Contractual Debtors (net of impair)	n/a	0.4	n/a	13.9
- Payments in Advance	n/a	0	n/a	1.7
- Soft Loans	n/a	0.3	n/a	0
<b>Available for Sale Assets:</b>				
- Investments	n/a	0	n/a	0.1
<b>Assets held at Fair Value through profit and Loss</b>				
- Investments	n/a	0	n/a	14.1
<b>Financial Liabilities at Amortised Cost</b>				
- PWLB Debt	n/a	(94.9)	n/a	0
- Other Long Term Debt	n/a	(5.1)	n/a	0
- Financial Guarantees	n/a	(0.2)	n/a	0
- Accounts payable	n/a	(1.9)	n/a	(20.1)
- Receipts in Advance	n/a	0	n/a	(5.2)
<b>Total Financial Instruments</b>	n/a	<b>(90.8)</b>	n/a	<b>57.9</b>

20.2 During the year the Council has not reclassified any financial instruments, or transferred any financial instruments that would require a change in the recognition of that instrument. The Council has not pledged any financial assets as collateral for liabilities or contingent liabilities.

20.3 The gains and losses in the Income and Expenditure Account and the Statement of Recognised Gains and Losses (STRGL) in relation to Financial Instruments for Investments and Borrowing are made up as follows.

	<b>Financial Liabilities</b>	<b>Financial Assets</b>			
	<b>Measured at Amortised Cost</b>	<b>Loans and Receiv- ables</b>	<b>Available for Sale</b>	<b>Fair Value through Profit and Loss</b>	<b>Total</b>
<b>Income &amp; Expenditure A/C</b>					
Interest Expenses	3.0	0	0	0	3.0
Change in Fair Value for interest due	1.1	0	0	0	1.1
Loss on Derecognition	0	0	0	0	0
Impairment Losses	0	0	0	0	0
<b>Interest Payable</b>	<b>4.1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4.1</b>
Interest Income	0	(1.7)	(0.1)	0	(1.8)
Change in Fair Value for Interest due	0	(2.1)	0	0	(2.1)
Change in Value on assets held at Fair Value through profit and loss	0	0	0	(0.6)	(0.6)
Gains on Derecognition	0	0	0	0	0
<b>Interest and Investment Income</b>	<b>0</b>	<b>(3.8)</b>	<b>(0.1)</b>	<b>(0.6)</b>	<b>(4.5)</b>
<b>STRGL</b>					
Gains on Revaluation	0	0	0	0	0
Losses on Revaluation	0	0	0	0	0
<b>Surplus/Deficit on STRGL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net (Gain)/Loss for the year</b>	<b>4.1</b>	<b>(3.8)</b>	<b>(0.1)</b>	<b>(0.6)</b>	<b>(0.4)</b>

20.4 The main measurement bases used by the Council in preparing the treatment of Financial Instruments within its financial statement are as follows:

<b>Financial Instrument</b>	<b>Basis of measurement</b>	<b>Note</b>
Investments – fixed rate	Carrying value adjusted for interest owed at year end	Investment have both fixed term and fixed interest rates
Investments – Money market Funds	Increase in carrying value reflected in Balance Sheet and not recognised in I&E 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 Manger 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 – Other	Held at carrying value on basis of materiality	
Soft Loans	Where material soft loans have been measured using an assumed effective interest rate of 5%.	Only loan deemed material is loan to PLUSS.
Contractual Debt/payables	Held at invoiced or billed amount less an estimate of Impairment for the uncollectability of that debt.	
PWLB Debt	Carrying value adjusted for interest due at year end	Borrowing is both fixed term and fixed interest rates
LOBO Debt	Balance measured using the effective interest rate within the contract for the maximum life of the deal	Rate calculated over full term assuming the options within the contract are not exercised.

Financial Guarantee	Balance measured by applying a range of probabilities to the risk of the guarantee being called.	Only guarantee in this category is to Torbay Coast and Countryside Trust.
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20.5 The Council in compiling its accounts assessed all its financial instruments and there were a number that were not considered material to make adjustment to the carrying value of the asset or liability. These include car loans to staff, deferred payments, debenture and other minor investments.

20.6 Financial Liabilities and assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. A comparison of the fair value of these financial instruments to the carrying value (amortised cost), can be made by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For PWLB debt the fair value has been assessed by using PWLB rates for new loans as at 31<sup>st</sup> March 2008, 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 2008
- For Investments, such as callable deposits and fixed term deposits where the rate is fixed, the fair value has been assessed by using a discount rate for deposits of similar length with a comparable lender as at 31<sup>st</sup> March 2008
- 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 trade and other receivables is taken to be the invoiced or billed amount.

The carrying amount and fair values for the Financial Instruments carried at amortised cost are shown in the table below. Note – there are no comparatives for 2006/07.

	31 <sup>st</sup> March 2007		31 <sup>st</sup> March 2008	
	Carrying	Fair Value	Carrying	Fair Value
	Amount		Amount	
	£m	£m	£m	£m
<b>Financial Assets</b>				
- Investments – Deposits	n/a	n/a	<b>52.8</b>	<b>52.3</b>
- Investments – “cash” accounts	n/a	n/a	<b>11.2</b>	<b>11.2</b>
Sub Total - Note One	n/a	n/a	<b>64.0</b>	<b>63.5</b>
Trade and other receivables	n/a	n/a	<b>16.4</b>	<b>16.4</b>
<b>Financial Liabilities</b>				
- PWLB Debt	n/a	n/a	<b>(94.9)</b>	<b>(91.0)</b>
- LOBO Debt	n/a	n/a	<b>(5.1)</b>	<b>(5.7)</b>
Sub Total - Note Two	n/a	n/a	<b>(100.1)</b>	<b>(96.7)</b>
Trade and other payables	n/a	n/a	<b>(25.9)</b>	<b>(25.9)</b>

Note One: The fair value of the investments is higher than the carrying amount because the Council's portfolio of investments include a number of fixed rate loans where the interest rate is higher than the rates available for similar loans at the balance sheet date. This guarantee to receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans.

Note Two: The fair value of the borrowing is less than the carrying amount because the Council's portfolio of loans includes a number of fixed rates where the interest rate payable is lower than the rates available for similar loans at the balance sheet date. The commitment to pay interest below current market rates reduces the amount the Council would have to pay if the lender requested or agreed to early repayment of the loans. It should be noted that the PWLB have provided a fair value of the Council's PWLB debt as at 31<sup>st</sup> March 2008 of £96.9 million. This is higher than the carrying amount of £94.9m as the PWLB has used their “premature redemption rate of interest” to calculate fair value. This rate is a more punitive rate than current rates that only applies if a Council repays debt early and is not a realistic view as it is unlikely that the Council would repay/reschedule loans while they were lower than current levels.

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

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

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Council's central treasury team, under policies approved by full Council as set out in the Treasury Management Strategy. (Report 31/2007 as presented to Council on 7/2/07 refers). 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.

#### 20.8 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they are rated independently (by both Fitch and Moody's credit rating agencies) with a range of investment limits relating to both value and length of deposit depending on rating. For example institutions with the highest rating of "AAA" have a maximum investment of £8 million for a maximum of 5 years while the lowest rating the Council will accept have a maximum investment of £3 million for a maximum of 364 days. The Council's fund manager also complies with a list of approved institutions with appropriate maximum holdings.

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

	Amount at 31/3/08	Historical experience of default	Historical experience adjusted for market conditions at 31/3/08	Estimated maximum exposure to default and uncollectability
	£m	%	%	£m
Deposits with banks and other financial institutions	64.0	0	0.5	0.3
Deposits held by Fund manager	14.1	0	0.5	0.1
Trade and other Receivables – Sundry Debt	2.8	10	12.5	0.4
<b>Total</b>	<b>80.9</b>			<b>0.8</b>

The Council does not generally allow credit for customers. In reviewing the Council's sundry debt £1.3 million of its sundry debt of the £2.8 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£m
Less than 3 months	1.5
Three to one year	0.3
More than one year	1.0
<b>Total</b>	<b>2.8</b>

## 20.9 Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loans Board, 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 borrowing is as follows:

	<b>£m</b>
Less than one year	0
Between one and two years	0
Between two and five years	0
Between five and ten years	1.0
Between ten and twenty years	5.0
Between twenty and thirty years	17.7
Above thirty years	76.3
<b>Total</b>	<b>100.0</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.

## **20.10 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:

### **20.11 Interest rate Risk**

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

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

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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure and effect the general Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the STRGL.

The Council has a number of strategies for managing interest rate risk. Its policy is to aim to keep a maximum of 25% of its borrowings in variable rate loans (as at 31/3/08 the Council had no borrowing at variable interest rates). During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of Government funding for supported borrowing costs will normally move with prevailing interest rates.

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

If on the 31/3/08 the interest rates are 1% higher than the actual interest rates the financial impact would be:

a) Borrowing:

The Council did not have any variable rate borrowing as at 31/3/08 so the impact would be nil. There is a possibility that Central Government could increase funding for the financing costs of supported borrowing in future year funding settlements. This, given the three year funding settlement 2008/09-2010/11, is unlikely to be quantifiable and in any case would relate to future year borrowing.

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. This would generate an additional £0.2m over a year. It should be noted that if the interest rate increase was forecast it is likely the profile of fixed rate deposits would have been invested on that basis.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The only additional issue is that the Council has £10 million of callable deposits which are more likely to be called (repaid) by the borrower in a falling rate environment, which would result in the Council having to reinvest at potentially lower interest rates.

#### 20.12 Price Risk

The Council does not generally invest in equity shares. The Council does have an equity interest in a number of companies (see note 37) but these do not lead to a share of profits.

#### 20.13 Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

## **21 Fixed Assets**

### **21.1 Movement of Fixed Assets**

During the year revaluations and capital expenditure increased the net value of tangible fixed assets by over £36 million. These revaluations were part of the cyclical revaluation programme but also reflect capital expenditure in the year.

The following tables analyse the movement in three types of fixed assets; Operational, Non Operational and Intangible assets. Information on depreciation methods and calculation are stated within the accounting policies.

### Movement of Operational Assets 2007/08

	Land & Buildings	Infrastructure Assets	Community Assets	Vehicle, Plant & Equipment	Total
	£ m	£ m	£ m	£ m	£ m
<b>Gross Book Value</b> as at 31 March 2007	250.6	51.5	2.5	8.8	313.4
Accumulated Depreciation	(6.5)	(6.0)	0	(5.3)	(17.8)
Accumulated Impairment	(0.3)	0	0	0	(0.3)
<b>Net Book Value</b> as at 31 March 2007	243.8	45.5	2.5	3.5	295.3
<b>Movement in year 2007/08</b>					
Capital Expenditure in year	5.4	6.8	4.0	2.0	18.2
Disposals –Sales	(1.2)	0	0	(0.1)	(1.3)
Re-classification ( net value)	(0.1)	0	0	0	(0.1)
Revaluations	16.5	0	0	0	16.5
	20.6	6.8	4.0	1.9	33.3
<b>Depreciation in year</b>					
Depreciation for year	(2.4)	(1.2)	0	(0.8)	(4.4)
Depreciation on assets sold/disposals	0	0	0	0.1	0.1
Revaluations	2.5	0	0	0	2.5
	0.1	(1.2)	0	(0.7)	(1.8)
<b>Impairment for year</b>					
Impairment for year	(3.0)	0	0	0	(3.0)
<b>Net Book Value as at 31 March 2008</b>	<b>261.5</b>	<b>51.1</b>	<b>6.5</b>	<b>4.7</b>	<b>323.8</b>

### Movement of Non Operational Assets 2007/08

	Investment Properties £ m	Surplus Properties £ m	Assets Under Construction £ m	Total £ m
<b>Gross Book Value</b> as at 31 March 2007	4.6	0.3	0.8	5.7
<b>Net Book Value</b> as at 31 March 2007	4.6	0.3	0.8	5.7
<b>Movement in year 2007/08</b>				
Disposals –Sales	0	(0.1)	0	(0.1)
Capital Expenditure in year	0	0	7.8	7.8
Re-classification	0	0.1	0	0.1
Impairment	0	(0.1)	0	(0.1)
Revaluations	(0.1)	0.3	0	0.2
	(0.1)	0.2	7.8	7.9
<b>Net Book Value as at 31 March 2008</b>	<b>4.5</b>	<b>0.5</b>	<b>8.6</b>	<b>13.6</b>

### Movement in Intangible Assets 2007/08

	Total £ m
<b>Purchased Software Licences</b>	
Original Cost	2.7
Amortisation to 1 April 2007	(1.4)
Balance as at 1 April 2007	1.3
Additions	0.3
Amortisation written off	(0.5)
<b>Balance as at 31 March 2008</b>	<b>1.1</b>

The costs are being written down over periods between 3 and 10 years depending upon the expected life of the software. Information on amortisation methods and calculation are stated within the accounting policies.

## 21.2 Capital Financing Requirement

The Capital Financing Requirement (CFR) was introduced by the Prudential Code for Capital Finance and reflects the movement in the Balance Sheet Accounts for Fixed Assets, Capital Financing Account, Government Grants Deferred and the Fixed Asset Restatement Account. The net movement in the Capital Financing Requirement illustrates the change in the underlying need for the Council to borrow during the year, to fund capital investment which has not been funded immediately from resources such as grants, capital receipts and direct funding from revenue.

2006/07		2007/08
£ m		£ m
92.9	<b>Opening Capital Financing Requirement</b>	<b>96.8</b>
	<b>Capital Investment in Year:-</b>	
22.1	Tangible Fixed Assets	<b>26.9</b>
0.2	Intangible Assets	<b>0.3</b>
3.1	Deferred Charges	<b>3.7</b>
25.4	<b>Total Expenditure in Year</b>	<b>30.9</b>
	Direct funding of Capital Investment in the Year -	
(14.5)	Government Grants and Other Contributions	<b>(17.2)</b>
(2.1)	Capital Receipts	<b>(1.6)</b>
(1.0)	Direct Revenue Funding	<b>(2.8)</b>
(17.6)		<b>(21.6)</b>
7.8	<b>Resultant Increase in Borrowing requirement from Spend in Year</b>	<b>9.3</b>
	<b>Revenue Provisions for the repayment of Debt:-</b>	
(2.9)	Minimum Revenue Provision	<b>(3.3)</b>
(1.0)	Debt Transferred from Devon County Council	<b>(0.9)</b>
(3.9)	<b>Reduction in Borrowing from provisions set aside in the Year</b>	<b>(4.2)</b>
3.9	<b>Net Increase in Capital Financing Requirement</b>	<b>5.1</b>
96.8	<b>Closing Capital Financing Requirement</b>	<b>101.9</b>

£m	<b>The increase in the underlying need to Borrow is represented by -</b>	£m
8.6	Borrowing Supported by the Government	7.1
(0.8)	Borrowing Not Supported by the Government ( Prudential Borrowing)	2.2
(3.9)	Provision set aside for the repayment of debt	(4.2)
<u>3.9</u>		<u>5.1</u>

### 21.3 Significant Commitments under Capital Contracts as at 31<sup>st</sup> March 2008

The significant commitments on capital schemes with a value greater than £0.5 million are in the table below:

	£ m
Foxhole School Amalgamation	4.5
White Rock infrastructure	4.3
Brixham Regeneration	1.0
Lymington Road Managed Workspace	1.1
Cockington School	0.7
Furzeham Childrens Centre	0.6
<b>Total Significant Commitments</b>	<u><b>12.2</b></u>

## 21.4 Assets

The assets of the Council comprise of (figures in brackets show 2006/07 comparatives):-

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

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

## 21.5 Valuation Information

Valuation of Fixed Assets carried at current value - the following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets, including assets valued following completion of significant projects. Valuations of Land & Buildings are carried out by the Council's internal Valuer Sam Partridge A.R.I.C.S. The basis for valuation is set out in the Statement of Accounting Policies. The Council is not aware of any material changes in asset values that have not been updated.

	<b>Land &amp; Buildings</b>	<b>Vehicles &amp; Plant</b>	<b>Non- Operational Properties</b>	<b>Total</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Valued at Historical Cost	0	8.3	0	<b>8.3</b>
<b>Valued at Current Value in year</b>				
2007/08	120.0	0	0.3	<b>120.3</b>
2006/07	93.4	0.5	0.8	<b>94.7</b>
2005/06	67.2	0	1.2	<b>68.4</b>
2004/05	29.8	0	0	<b>29.8</b>
2003/04	41.1	0	3.7	<b>44.8</b>
<b>Total Gross Value</b>	<b>351.5</b>	<b>0.5</b>	<b>6.0</b>	<b>358.0</b>

Note – these valuations of current value are changes arising from new valuations being issued for assets. These totals do not include any changes in current value arising from capital expenditure on an asset prior to a valuation being issued.

## 21.6 Foundation Schools

The Council is required to transfer ownership of Fixed Assets and long term liabilities to the Governing Bodies of individual schools that have elected to adopt Foundation Status. 7 schools have elected to adopt Foundation status (one of which is a PFI school where the building asset rests with the provider during the contract period). Even though the Council's title to the asset passes to the Governing Bodies, the value of the fixed assets (totalling £55.7m (£49.6m 2007/08) is included in the Council's balance sheet value of fixed assets reflecting the fact that these properties can only be used as schools.

## 22 Gains/Losses on disposals of Assets and other capital receipts

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

The Council also receives other cash receipts in a year which are not directly related to a disposal of an asset.

### 22.1 Analysis of Capital Receipts in year

2006/07		2007/08
£ m		£ m
0.4	Council share of Right-to-Buy receipts from sale of Housing transferred to the Riviera Housing Trust	0
0.5	Sale of Assets	1.3
<u>0.9</u>		<u>1.3</u>

## 22.2 Analysis of Gain/Loss on Disposal of Assets 2007/08

<b>Asset</b>	<b>Sale Receipt</b>	<b>Value of asset</b>	<b>Net Gain/loss on disposal</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Housing Right to Buy receipts	0	0	0
Surplus Assets	1.3	(1.3)	0
<b>Gains/(losses) on disposal</b>	<b>1.3</b>	<b>(1.3)</b>	<b>0</b>

## 23 Government Grants & Contributions Deferred Accounts

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

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

<b>2006/07</b>		<b>2007/08</b>
<b>£ m</b>		<b>£ m</b>
24.0	Opening Balance as at 1st April	<b>35.8</b>
12.8	Grants and contributions deferred in year	<b>14.6</b>
(1.0)	Released to Revenue	<b>(1.1)</b>
<b>35.8</b>	<b>Balance as at 31st March</b>	<b>49.3</b>

## **24 Investments**

### **24.1 Association of District Councils**

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

### **24.2 SWERCOTS Ltd**

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

### **24.3 South West Grid for Learning Trust**

The company is limited by guarantee and was incorporated on 9<sup>th</sup> 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.

### **24.4 Connexions (Devon and Cornwall) limited**

The Council has an equal share with 13 other public sector bodies in Devon and Cornwall Connexions limited which aims to help young people and adults engage in learning and work. This is a company limited by guarantee and the Council's liability is limited to £1. There are no transactions/liabilities associated with Torbay Council's membership. For financial reporting this relationship has been treated as an investment.

## 24.5 Money Market Investments

As at 31/3/07 the Council had invested, as part of its Treasury management function, £10.5 million (2006/07 £18.0m) with 2 different institutions with a maturity of greater than one year.

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

Total Invested	<b>Analysis of Investments by due dates</b>		Total Invested
31st March 2007			31st March 2008
£ m			£ m
12.0	1 up to 2 years		6.0
6.0	2 up to 3 years		2.0
0	3 up to 4 years		2.0
18.0	Total		10.0
n/a	<i>Fair Value as at 31/3/08 - including interest due</i>		10.5

## 24.6 Temporary Investments

Temporary investments include £67.6m (2006/07: £38.1m) of short-term (money market) investments, of which £14.1m is held by the Council's fund managers – Scottish Widows. (Note fair value of the temporary investments including interest due on the balance sheet is £67.5m)

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

## 25 Local Authority Trading Scheme (LATS) Assets and Liabilities

### Current Assets

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

2006/07	Vintage	Allowance	Fair Value	2007/08
£m		Tonnes	£	£m
0.05	2005/06	3,057	5.00	0.02
0.75	2006/07	1,608	5.00	0.01
0	2007/08	39,103	5.00	0.19
<hr/>				<b>0.22</b>
0.8				

The Allowances for 2005/06, 2006/07 and 2007/08 have been valued at fair (market) value, i.e. at the average trading value of allowances as advised by CIPFA at the end of the financial year.

#### Other Assets

In 2007/08 the Council agreed to purchase 6,000 units from another Council for the 2009/10 allowances. This is carried at cost (£144,000) in the balance sheet until recognition in the relevant year.

2006/07	Vintage	Allowance	Fair Value	2007/08
£m		Tonnes	£	£m
0	2009/10	6000	24.00	0.14
<hr/>				<b>0.14</b>
0				

#### Liability to DEFRA (included in provision)

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

2006/07	Vintage	BMW Landfill	Fair Value	2007/08
£m		Tonnes	£	£000's
(0.72)	2007/08	38,247	5.00	(0.19)
<hr/>				<b>(0.19)</b>
(0.72)				

## 26 Leases

### 26.1 Operating Leases

The Council has entered into operating lease agreements to acquire vehicles, plant and equipment. The combined lease rentals incurred in 2007/08 amounted to £0.4 million (2006/07: £0.5 million). The outstanding obligation on all operating lease drawdowns is £0.5 million. During 2007/08 the Council did not enter into any new lease agreements.

### 26.2 Operating Leases (Future rental liabilities)

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

Vehicle, Plant and Equipment 2006/07 £ m	Year Due	Vehicle, Plant and Equipment 2007/08 £ m
0.4	Within 1 year	0.3
0.4	1 to 2 years	0.1
0.1	2 to 5 years	0.1
0	Over 5 years	0
<hr/> 0.9 <hr/>	<b>Total Due</b>	<hr/> 0.5 <hr/>

### 26.3 Land and Property Leases

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

The Council as a lessee: The Council made a total of £0.5 million of lease (rent) payments in 2007/08 (£0.5 m 2006/07), and it is anticipated that the payments will be at a similar level in 2008/09. (Subject to a de minimis of £10,000).

Property 2006/07 £ m	Year Due	Property 2007/08 £ m
0.2	Within 1 year	0.4
0.1	1 to 2 years	0
0.1	2 to 5 years	0.1
0.1	Over 5 years	0
<hr/> 0.5 <hr/>	<b>Total Due</b>	<hr/> 0.5 <hr/>

The Council as a lessor: The Council received a total of £2.3 million of lease (rent) payments in 2007/08. (£2.1m 2006/07) The gross value of these assets are £47 million with accumulated depreciation of £2 million.

## 27 Local Area Agreements

The Council received a total Local Area Agreement Grant of £1.6m in 2007/08. This was split £1.4 million revenue grant and £0.2 million capital grant. The grant was allocated for the first time in 2007/08 and was an amalgamation of a number of grants that the Council had previously received as service specific grants. For 2008/09 this grant has been incorporated into the larger non ringfenced Area based Grant.

In 2007/08 the Council was the accountable and lead body for all the expenditure, therefore all income and expenditure relating to this grant has been reflected within the net cost of services section of the Income and Expenditure Account. In 2007/08 the Council had expenditure, (including allowable carry forwards), for the full value of the grant.

The Council's formal Local Area Agreement was agreed by the Torbay Strategic Partnership whose members include public, private and voluntary sector partners.

Further information on the constitution of the Strategic partnership is on the Council website - <http://www.torbay.gov.uk/constitution.doc>. A copy of the Local Area Agreement for 2007/08 is also available at:

<http://www.torbay.gov.uk/index/council/torbay-partnerships/torbaystrategicpartnership/laa>

## 28 Local Authorities (Goods and Services) Act 1970

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

2006/07		2006/07
£ m		£ m
0.6	Provision of Transport and Property services to Torbay Care Trust	0.7
0.2	Various Public & External Bodies – Sale of printing services	0.2
0.3	Operational Services – Maintenance, Waste Collection, Tipping, Cleaning work, Supply of Goods & Materials and 24 hour Emergency Control for Devon County Council, Riviera Housing Trust, Teignbridge District Council and Housing Associations.	0.3
<u>1.1</u>		<u>1.2</u>

## 29 Long Term Borrowing & Deferred Liabilities

### 29.1 Long Term Borrowing

This heading reflects the borrowing undertaken by the Council to fund its capital programme. Any costs of borrowing are borne in the net operating expenditures for interest payments and in the Statement of Movement on the General Fund Balance for the Minimum Revenue Provision for the repayment of debt. Central Government will recognise the costs of any “supported” borrowing within the Council’s annual funding settlement. Any “unsupported” borrowing undertaken using the Prudential Code will have to be funded from within Council resources.

Total Outstanding 31st March 2007 Principal £ m		Total Outstanding 31 March 2008 Principal £ m	Total Outstanding 31 March 2008 Fair Value £ m
<b>Borrowing Repayable</b>			
<b>Amounts falling due within one year</b>			
2.0	Public Works Loans Board	0	0
2.0		0	0
<b>Amounts falling due in excess of one year</b>			
5.0	Barclays Bank plc (LOBO) see note	5.0	5.1
85.8	Public Works Loans Board	93.8	94.9
90.8	<b>Total</b>	98.8	<b>100.0</b>
92.8		98.8	<b>100.0</b>

The table below shows an analysis of the Long Term Borrowing repayable: - (by principal outstanding)

Total Outstanding 31st March 2007 £ m	<b>Analysis of Loans by Maturity</b>	<b>Average Interest Rate</b>	<b>Total Principal Outstanding 31st March 2008 £ m</b>
2.0	Within 1 year	0	0
0	1 up to 2 years	0	0
0	2 up to 3 years	0	0
0	3 up to 4 years	0	0
0.0	4 up to 5 years	0	0
1.0	5 up to 10 years	4.1%	1.0
2.0	10 up to 15 years	4.5%	2.0
3.0	15 up to 20 years	4.45%	3.0
2.5	20 up to 25 years	4.5%	2.5
82.3	Over 25 years	4.22%	90.3
92.8	<b>Total</b>	<b>4.24%</b>	<b>98.8</b>

## 29.2 Lenders Option Borrowers Option (LOBO)

The loan with Barclays Bank Plc is a LOBO loan (Lenders Option Borrowers Option), where after a short initial period of low interest, it then moves to a higher rate. The lender has the option to increase the rate beyond the agreed rates after the initial period and at agreed intervals thereafter. The borrower then has the option to continue at the higher rate or repay the loan incurring no penalty. The loan will continue for the full term at the agreed rate unless the lender exercises the option to increase the rate of interest.

## 29.3 Deferred Liabilities

Deferred Liabilities recognises the “transferred debt” arrangements between Devon County Council and Torbay Council, which arose out of the reorganisation of Local Authorities in England on 1st April 1998. Payments to Devon include principal and interest based upon an apportionment of Devon’s Credit Ceiling prior to transfer as directed by the Local Government changes for England (Payments to Designated Authorities) (Minimum Revenue Provision) Regulations 1995. Payments to Devon County Council are funded by the Council Taxpayers through charges to the Statement of Movement on the General Fund Balance.

Transferred Debt principal outstanding at 31<sup>st</sup> March 2008 is £22.3 million, (2005/06 £23.2m).

Total Outstanding 31st March 2007 £ m	<b>Deferred Liabilities</b>	<b>Total Outstanding 31st March 2008 £ m</b>
	<b>Amounts falling due within one year</b>	
0.9	Devon County Council Debt Repayment	<b>0.9</b>
0.9		
	<b>Amounts falling due in excess of one year</b>	
22.3	Devon County Council Debt Repayment	<b>21.4</b>
22.3		<b>21.4</b>
<b>23.2</b>	<b>Total</b>	<b>22.3</b>

### 30 Members Allowances

Member's Allowances for 2007/08 were £0.455 million (2006/07: £0.428m).

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).

### 31 Minimum Revenue Provision - Provision for Repayment of External Debt

The net amount charged to revenue in compliance with the statutory requirement to set aside a Minimum Revenue Provision for the repayment of external debt is £3.3 million (£2.9m 2006/07) calculated as follows:-

2006/07		2007/08
£ m		£ m
3.7	4% of Capital Financing Requirement (CFR)	3.9
(0.2)	Adjustment allowed under Capital Finance Regs	(0.2)
(0.6)	Commutation adjustment	(0.4)
0	Adjustment to previous method (SI 2007/573)	0
<u>2.9</u>		<u>3.3</u>

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

The Local Authority (Capital Finance and Accounting) (Amendment) Regulations. (SI 2008/414) supported by statutory guidance on the Minimum Revenue Provision further changed the method of calculation from 2008/09. Council had the option of adopting the new guidance for 2007/08. Torbay Council has not taken this option.

## 32 Analysis of Net Assets Employed in the Current Year

Restated Balance as at 31 <sup>st</sup> March 2007 £ m		Balance as at 31 <sup>st</sup> March 2008 £ m
116.3	General Fund	142.7
(2.4)	Operational Services	0.6
19.5	Harbours	20.8
<hr/> 133.4		<hr/> 164.1

## 33 Pensions

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

### 33.1 Local Government Scheme

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

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

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

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

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

Main Financial Assumptions:

The latest actuarial valuation of the Devon County Council Pension Fund took place on 31<sup>st</sup> March 2007. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were:

31 <sup>st</sup> March 2007		31 <sup>st</sup> March 2008
% pa		% pa
3.2	Rate of inflation	<b>3.7</b>
4.7	Rate (long term) of increase in salaries	<b>5.2</b>
3.2	Rate of increase to pensions in payment	<b>3.7</b>
3.2	Rate of increase to deferred pensions	<b>3.7</b>
5.3	Discount Rate	<b>6.8</b>

The market value of the assets of the Devon County Council Pension Fund at 29 February 2008 was £2.17 billion (28/2/07 £2.14bn). The assets as at 31 March 2008 have been estimated using index returns between 29 February 2008 and 31 March 2008. The asset values used as at 31<sup>st</sup> March 2008 are set out below. The FRS17 figures are for Torbay Council as an admitted body to the pension scheme. It excludes the FRS17 disclosures for Hayes Road School and Torquay Boys Grammar School who are separately admitted bodies to the pension fund.

Long Term rate of return expected as at 31 <sup>st</sup> March 2007 (% pa)	Estimated value as at 31 <sup>st</sup> March 2007 £m		Long Term rate of return expected as at 31 <sup>st</sup> March 2008 (% pa)	Estimated value as at 31 <sup>st</sup> March 2008 £m
7.7	1,493.5	Equities	7.6	1,396.0
6.7	216.9	Property	6.6	191.9
4.7	299.0	Government Bonds	4.6	340.5
5.3	17.5	Corporate Bonds	6.8	22.3
5.6	152.6	Other	6.0	202.7
<b>7.0</b>	<b>2,179.5</b>	<b>Total</b>	<b>6.9</b>	<b>2,153.4</b>

#### Funding Position

The following amounts, needed for reconciliation to the balance sheet, were measured in accordance with the requirements of FRS17 at 31<sup>st</sup> March 2008 and 31<sup>st</sup> March 2007 as follows:

2006/07 £m		2007/08 £m
183.6	Share of assets in Devon County Council Pension Fund	182.6
(242.6)	Estimated funded liabilities	(228.6)
(9.7)	Estimated unfunded liabilities	(9.2)
<b>(68.7)</b>	<b>Torbay Council's deficiency in the scheme</b>	<b>(55.2)</b>

The movement in net deficit for the year to 31<sup>st</sup> March 2008 is as follows:

2006/07			2007/08	
£m	£m		£m	£m
	(67.3)	Net Deficit at beginning of year:		(68.7)
7.2		Contributions paid	8.0	
(7.4)		Current Service Costs	(7.7)	
(0.5)		Past Service Costs	(2.0)	
0		Gain/Loss on Curtailments	0	
11.0		Expected return on pension fund assets	12.9	
(11.6)		Interest on pension scheme liabilities	(13.5)	
(0.1)		Actuarial Gain/(loss)	15.8	
	(1.4)			13.5
	<u>(68.7)</u>	<b>Net Deficit at end of year</b>		<u>(55.2)</u>

The Actuarial gains/loss is disclosed in the Statement of Total Recognised Gains and Losses, which can be further analysed as follows:

As at March 31st 2003	As at March 31st 2004	As at March 31st 2005	As at March 31st 2006	As at March 31st 2007		Year Ending 31 <sup>st</sup> March 2008	
£m	£m	£m	£m	£m		£ m	%
(23.0)	14.2	7.1	23.2	1.7	Difference between expected And actual return on scheme assets	(17.5)	(10%)
0.5	0	3.2	(0.4)	(0.4)	Experience gains and losses on scheme liabilities	(1.9)	(1%)
0	0	(41.3)	(16.4)	(1.4)	Change in Assumptions	35.2	15%
<u>(22.5)</u>	<u>14.2</u>	<u>(31.0)</u>	<u>6.4</u>	<u>(0.1)</u>	Total Actuarial Gain/(Loss)	<u>15.8</u>	<u>7%</u>

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

<b>Local Government Scheme</b>		
2006/07 £ m		2007/08 £ m
<b>Income and Expenditure Account</b>		
<b>Net Cost of Services</b>		
7.5	- Current Service Cost	7.7
0.4	- Past Service Cost	2.0
<b>Net Operating Expenditure</b>		
11.6	- Interest Cost	13.5
(11.0)	- Expected Return on Assets in the Scheme	(12.9)
<b>Statement of Movement on General Fund Balance</b>		
(1.3)	- Reversal of net charge made for retirement benefits in accordance with FRS17	(2.3)
7.2	<b>Actual Amounts charged against council tax for pensions in year</b>	<b>8.0</b>

Torbay Council's contribution rate over the accounting period was 298% of member contributions (2005/06 282%). The contribution rate for 2008/09, 2009/10 and 2010/11 is 283%. These figures include the past service element of the contribution rate. In addition as a result of over 500 Torbay Adult Care Trust staff, (formally Council employees), ceased to be active members of the Fund as at 1<sup>st</sup> December 2005. The actuary anticipated that some of these members were likely to elect to transfer their past service benefits to the NHS pension scheme on special terms. In recognition of this additional cost to the Council a lump sum of £0.3m per annum will be paid to the fund in addition to the contribution rate

**Analysis of Results:**

2008 Scheme

A new benefit structure was introduced in the LGPS from 1<sup>st</sup> April 2008. This change affects both the value of benefits earned up to 31<sup>st</sup> March 2008 and the cost going forward from that date. The actuary has accounted for this change within the past service costs figure of £2.0 million. This increase is, on average, a 1.6% increase in the active member liabilities.

### Current Service Costs

The Current Service Cost is based on the assumption at the start of each year and the estimated pensionable pay over that year. The financial assumptions at 31 March 2008 were less conservative than those at 31 March 2007 which means the current service cost this year would be lower than last year ignoring any changes in pensionable pay. Any change in the overall level of pensionable pay since last year will also affect the Current Service Cost figure. Under the projected unit method the current service cost will increase as the members approach retirement

### Past Service Costs

The past service cost is the cost of any benefit improvements granted over the year. For funded benefits, this consists of the approximate cost of enhanced early retirements, calculated using the Strain on Fund employer contribution data. In addition, for 2007/08, there is a past service cost due to the introduction of the 2008 Scheme.

### Accounting Standards Board Amendment to FRS17 (2006)

The Accounting Standards Board has published an amendment to FRS17. This will impact on the Council's 2008/09 accounts and will require the 2007/08 comparatives to be restated.

### Analysis of Amounts recognised in Statement of Total Recognised Gains and Losses and the Statement of Movement on General Fund Balance

#### *Actual return less expected return on pension scheme assets*

During the year ended 31 March 2008, the investment return on the Fund's assets was lower than assumed at the start of the year. This can be observed in the loss in the 'Actual return less expected return on pension scheme assets'.

#### *Change of assumptions*

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

The demographic assumptions have changed from those used last year and are consistent with

those used for the most recent actuarial valuation of the Fund as at 31<sup>st</sup> March 2007. This has increased the value placed on the liabilities.

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

#### *Experience Gains and Losses*

As the results of the new actuarial valuation are now available, differences between actual experience since the previous valuation, and that assumed for FRS17 purposes in previous years when a roll-forward method from the valuation as at 31<sup>st</sup> March 2004 has been used, can be observed in the Experience gains/losses item.

### **33.2 Teachers’ Pension Scheme**

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

In 2007/08 the Council was due to pay £5.2 million (£5.0 million in 2006/2007) to the Pensions Agency in respect of teachers’ retirement benefits, which represents 14.0% (13.6% in 2006/2007) of teachers’ pensionable pay. For 2007/08 the employers contribution rate was 14.1%. With Regard to the Teachers Pensions scheme there were £0.6m contributions remaining payable at the year end of which £0.4m was employers contributions.

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

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

### **33.3 Contributions to Devon County Unfunded Discretionary Pensions**

The Council is responsible for a proportion of pension payments awarded by Devon County Council prior to 1st April 1998. It was agreed that the Council would make annual contributions to meet the cost of future payments made by Devon County Council. These amounts do not have sufficient characteristics of liabilities directly in respect of retirements benefits for which FRS17 retirement benefits apply. Therefore these amounts have been disclosed as amounts payable to Devon County Council as they fall due each year. In 2007/08 these amounted to £0.77 million (£0.77 million in 2006/2007).

The Council's liability is to Devon County Council in relation to unfunded pensions prior to 1998. It is estimated that, if FRS17 applied to these contributions, the total liabilities in relation to these pre 1998 enhancements at the liability at 31<sup>st</sup> March 2008 to be £91 million (2006/2007: £96 m), of which Torbay's share would be £10.7 million (2006/2007: £11.3 m).

## **34 Prior Period Adjustments**

There are no prior period adjustments required for these accounts. All the changes arising from the introduction of the Revaluation reserve and from the financial reporting standards on Financial Instruments are applicable from 1<sup>st</sup> April 2007.

## **35 Provisions**

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

	Balance as at 1 <sup>st</sup> April 2007	Additions	Withdrawals	Balance at as 31 <sup>st</sup> March 2008
	£ m	£ m	£ m	£ m
<b><u>Provisions</u></b>				
Leased Vehicle and Leased Bin Returned Condition	0.1	0	0	0.1
Insurance	0.6	0	0	0.6
Redundancy Provision	0	0.5	0	0.5
Landfill Allowance Trading Scheme	0.7	0.2	(0.7)	0.2
Pay Modernisation	0	2.9	0	2.9
Holiday pay and pay arrears	0	1.1	0	1.1
Other Provisions	0.1	0	(0.1)	0
<b>TOTAL PROVISIONS</b>	<b>1.5</b>	<b>4.7</b>	<b>(0.8)</b>	<b>5.4</b>

Description of Provisions held by the Council

**Name of Provision**

**Description of Provision**

Leased Vehicle Return Condition

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

Leased Bins Return Condition

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

Insurance

Reflects a reliable estimate of Council liability on all known claims outstanding as at 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.

Redundancy Provision	Provision to reflect the redundancy, pension payments and other employee related costs arising from decisions where a constructive obligation for these costs has been created. This is expected to be used within 2008/09.
Landfill Allowance Trading Scheme	Provision to reflect the liability to DEFRA incurred for usage of landfill allowances. This provision will be used in the next 12 months.
Pay Modernisation	Provision to meet the costs of implementing the Local Pay Review. To include lump sum payments arising from employment tribunals (if any) and lump sum payments to staff of implementing the scheme for 2007/08. These costs, when confirmed, will be funded from a capitalisation directive and earmarked reserves. This is expected to be used within 2008/09. In recognising the potential for such costs the council is not conceding that any such costs will be paid in the future.
Holiday Pay	Provision to meet any potential costs arising from backdating holiday pay to some members of staff. This is expected to be used within 2008/09. In recognising the potential for such claims the council is not conceding that any such claims will be paid in the future.

### **36 Publicity Account**

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

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

2006/07			2007/08	
£ m	£ m		£ m	£ m
	0.3	Recruitment advertising		<b>0.3</b>
		Torbay Development Agency:-		
0.8		Marketing (including Riviera Guide)	<b>0.9</b>	
<u>(0.4)</u>		Less: Guide advertisement income	<u>(0.3)</u>	
	0.4			<b>0.6</b>
	0.1	Other Publicity Advertising		<b>0.1</b>
	0.2	Communications Team & Internet		<b>0.2</b>
	<u>0.1</u>	Other Advertising (includes statutory)		<u><b>0.1</b></u>
	<u>1.1</u>			<u><b>1.3</b></u>

## 37 Related Companies

### 37.1 Torbay Enterprise Agency

Torbay Enterprise Agency Limited is a private company limited by guarantee without share capital under the control of Torbay Council. The nature of the company is to support businesses within Torbay. Torbay Council staff and Councillors comprise all members and directors of this company.

The company's latest accounts for the financial year ended 31<sup>st</sup> March 2008 shows a net profit of £7,000 (2006/07: £7,000) increasing its total net assets to £40,000 (2006/07: £35,000). Due to the size of the company under the Companies Act 1985 it is exempt from audit. Copies of the latest published accounts can be obtained from the Director of Finance at Torbay Council.

### 37.2 The PLUSS Organisation Ltd

The PLUSS Organisation Ltd is a company limited by guarantee with no share capital. Devon County Council, Plymouth City Council, Torbay Council and 2006 Somerset County Council each have an equal 'share' in the company and equal voting rights. The Company's membership structure does not allow a dividend payment, and all profits are retained by PLUSS Organisation Ltd for the future development of services.

For financial reporting this relationship falls within the definition of an associate which, if material, would require the Council to produce group accounts. Under the equity method for accounting for associates prescribed in FRS9 only the net assets need to be disclosed, these were considered to be immaterial. A summary of PLUSS accounts for the year 2007/08 is shown below:-

Torbay Council's 25% share 2006/07	<b>The PLUSS Organisation Ltd</b>	Torbay Council's 25% share 2007/08
	<b>Profit and Loss Account for the period ended 31 March 2008</b>	
£m		£ m      £m
5.18	Gross Turnover	24.0 <b>6.00</b>
(5.23)	Less Operating Costs	(24.1) <b>(6.03)</b>
(0.05)	Operating Profit/(Loss)	(0.1) <b>(0.03)</b>
0	Gains/(Losses) on Disposals	0.1 <b>0.03</b>
	<i>Interest Receivable</i>	
0.03	- External Interest	0.1 <b>0.03</b>
0.3	- Interest related to FRS17 Retirement Benefits	1.6 <b>0.4</b>
	Less Interest Paid	
(0.23)	- Interest related to FRS 17 Retirement Benefits	(1.2) <b>(0.3)</b>
0.1	Net Interest	0.5 <b>0.13</b>
0.05	Profit before Taxation	0.5 <b>0.13</b>
0	Less Taxation	(0.2) <b>(0.05)</b>
<u>0.05</u>	<b>Profit after Taxation</b>	<u>0.3</u> <b>0.08</b>

£m	<b>Balance Sheet as at 31<sup>st</sup> March 2008</b>	£m	£m
0.13	Fixed Assets	0.7	<b>0.18</b>
1.37	Current Assets	5.5	<b>1.38</b>
(1.1)	Less Current Liabilities	(3.9)	<b>(0.98)</b>
0.40	Total Assets less Current Liabilities	2.3	<b>0.58</b>
(0.28)	Less Long Term Creditors & Provisions	(1.2)	<b>(0.3)</b>
0.08	Pension Assets	1.4	<b>0.35</b>
<b>0.20</b>	<b>Net Assets including pension assets</b>	<b>2.5</b>	<b>0.63</b>
<p>Torbay Council's 25% share</p> <p><b>Profit and Loss Account for the period ended 31 March 2008 Continued</b></p>			
2006/07	Capital and Reserves		
0.10	Profit and Loss Reserve	0.7	<b>0.18</b>
0.10	Pension Reserve	1.8	<b>0.45</b>
<b>0.20</b>	<b>Members' Funds - non-equity</b>	<b>2.5</b>	<b>0.63</b>

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

- The guarantee of an overdraft to Barclays bank to a value of £0.125 million.
- The issue of a (interest free) loan to the new company to cover working capital of £0.231 million. This loan is shown as a soft loan in the Council's long term debtors and repayments are due to start in 2011.

PLUS has been admitted to the Devon County Pension Fund. The former Council staff are now employed by PLUS and as a result the Council has guaranteed to meet any pension related financial liabilities arising on staff prior to transfer. The latest estimate of the value of this

guarantee is £0.4 million.

The information is based on unaudited accounts for the year ending 31<sup>st</sup> March 2008.

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

### **38 Related Party Transactions**

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

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

During the year transactions with related parties arose as follows:

Members: A Members Record of Interests is maintained and is available for public inspection. In addition for 2007/08 the following declarations were made:-

Mr N Hutchinson, an independent member declared that his guest house had provided bed and breakfast services to the Council

Councillor D Thomas declared a Street Traders License

Councillor R Excell declared a sale of products to the Tourist Board

The Council maintains a Members Register of Gifts & Hospitality. During 2007/08 Members received hospitality (over the value of £25) from the following organisations/individuals:-

Herald Express, Chartered Institute of Waste Management, Royal Naval Association, Anthony Steen MP, Mr N Bye, Torbay Hospitality Association, PLUSS, FIRST, and the Singer Family.

**Officers:** The Council maintains a Register of Gifts & Hospitality. During 2007/08 officers received hospitality (over the value of £25) in the course of their employment from the following organisations/individuals:-

Glendennings Limited, Mr Brown, Chartered Institute of Waste Management, Proquest, Parsons Brinkerhoff, Faber Maunsell, and Hochtief Construction.

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

**Trusts:** The Council paid a management fee of £156,000 to the Torbay Coast and Countryside Trust in 2007/08. Although the Council has representation on the Trustee Board it is not felt to have a significant influence over Trust policies.

The Council has agreed to act as a guarantor to the Torbay Coast and Countryside Trust for £950,000. This is relating to a bank loan and an overdraft facility that was originally in respect of capital work and initial trading at Occombe Farm but now covers the whole TCCT activities.

The Council contributed a deficit funding payment of £585,000 and a capital grant of £261,000 to Riviera Centre International Limited, a not for profit company. The Council does not hold assets or liabilities in the Company.

**Assisted Organisations:** The Council provided £133,900 to the Torbay Citizen's Advice Bureau. The Council does not have any influence over policies.

**Precepts** The total cost of these services is disclosed within the Income and Expenditure Account. Within that total the precepts and levies paid in 2007/08 are as follows:

	£,000
Environment Agency	38
Devon Sea Fisheries	48
Brixham Parish Council	212
Government Grants:	The Council receives government grants to support the provision of services within its net budget. These are within the gross income within the Income and Expenditure Account and within its Cash Flow Statement. A summary of revenue grants by Service is shown below.

2006/07	Service Classification	2007/08
£ m		£ m
11.6	Central Services	12.3
2.8	Culture, Environment and Planning	3.8
87.2	Children's and Education Services	94.1
0.1	Highways, Roads and Transport	0.3
47.3	Housing Services	50.1
6.8	Adult Social Services	5.8
2.0	Other	1.9
<u>157.8</u>		<u>168.3</u>

Care Trust In December 2005 the Council entered a "partnership agreement" with Torbay Care Trust, (formally Torbay Primary Care Trust) for the provision of Adult care services formally operated by the Council. Although the Council remains ultimately responsible for Adult Social Care, staff working in this service formally employed by the Council are now employed by Torbay Care Trust. In 2007/08 the Council has provided £37.0 million of funding including specific government grants.

PLUSS: The supported employment service, formally Torbay Industrial Services, was transferred in August 2005 to a Local Authority Controlled company (PLUSS) in which the Council has an equal share with Devon County Council, Plymouth City Council and from July 2006 Somerset County Council. In 2007/08 the Council has provided £1.9m of funding and purchases of goods and services (£1.6m 2006/07).

Outstanding Balances: Any amounts due to or from related parties as at 31<sup>st</sup> March 2008 are within the Council's balance sheet. The only balances with related parties over £100,000 is a net £2.6 million (2006/07: £1.2 m) due to Torbay Care Trust and £0.1 million (2006/07: £0.9 m) due from PLUSS.

## **39 Reserves and Balances**

### **39.1 Summary of Movements in Reserves**

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

<b>Reserve</b>	Balance as at 1 <sup>st</sup> April 2007	Net Movement in Year	<b>Balance as at 31<sup>st</sup> March 2008</b>	Further Details
	£m	£m	£m	
Revaluation Reserve	0	18.3	<b>18.3</b>	Note 39.2
Capital Adjustment Account (see note 1)	174.0	(0.2)	<b>173.8</b>	Note 39.3
Usable Capital Receipts	2.2	(0.3)	<b>1.9</b>	Note 39.4
Financial Instrument Adjustment Account	0	(0.4)	<b>(0.4)</b>	Note 39.5
Available for Sale Reserve	0	0	<b>0</b>	Note 39.6
Equal Pay Back Pay Account	0	(2.6)	<b>(2.6)</b>	
Pension Reserve	(68.7)	13.5	<b>(55.2)</b>	Note 33
General Fund	2.8	0.2	<b>3.0</b>	Statement of Movement on General Fund Balance
School Balances	3.4	(1.0)	<b>2.4</b>	Note 39.7
Earmarked Reserves	18.9	3.4	<b>22.3</b>	Note 39.8
Trading Reserves	0.5	0	<b>0.5</b>	
Collection Fund	0.3	(0.2)	<b>0.1</b>	Collection Fund Statement
<b>TOTAL NET WORTH</b>	133.4	<b>30.7</b>	<b>164.1</b>	

Note 1 – the 2006/07 balances on the Fixed Asset Restatement Account and Capital Financing Account have been consolidated into the Capital Adjustment Account.

### 39.2 Revaluation Reserve

The balance on the Revaluation Reserve records the accumulated gains on the fixed assets held by the authority arising from increases in inflation or other factors. This balance will, in effect, be the difference between the depreciated current value of each fixed asset compared to the depreciated historical cost. For consistency for all Council's the opening balance on this account as at 1<sup>st</sup> April 2007 is nil.

2006/07		2007/08
£ m		£ m
n/a	Opening balance as at 1 <sup>st</sup> April	0
n/a	Gains on revaluation of fixed assets in excess of net value	18.5
n/a	Excess of Current Value depreciation compared to historical cost depreciation	0.1
n/a	Adjust for any balance in Reserve for assets disposed of in year	(0.3)
n/a	Adjustment to balance in Reserve for assets impaired in year	0
n/a	Balance as at 31st March	18.3

### 39.3 Capital Adjustment Account

The Capital Adjustment Account accumulates (as debits) the write down of the historical cost of the asset as it is consumed by depreciation, impairment or written off on disposal. It also accumulates (as credits) the resources that have been set aside to finance capital expenditure. The balance on this account thus represents timing differences between the amount of the historical cost of the fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements. The closing 2006/07 balances on the Fixed Asset Restatement Account and Capital Financing Account have been consolidated into the Capital Adjustment Account opening balance as at 1<sup>st</sup> April 2008.

2006/07		2007/08
£m		£m
n/a	Opening Balance as at 1st April 2007	174.0
	<b>Resources set aside to finance capital expenditure:</b>	
	Direct financing of Capital Investment in Year -	
n/a	Capital receipts	1.6
n/a	Revenue	2.8
n/a	Funding of Capitalised Element of PFI Payment (Deferred Asset)	0.5
n/a	Repayment of Debt Transferred from Devon County Council	0.9
n/a	Minimum Revenue Provision	3.3
n/a		<b>183.1</b>
	<b>Variations in Historical Cost of the Asset:</b>	
n/a	Depreciation Charged in Year to I&E	(4.4)
n/a	Amortisation of Intangible Assets	(0.5)
n/a	Write Down of deferred charges to be funded from capital	(1.2)
n/a	Impairment Charged in Year to I&E	(3.1)
n/a	Amortisation of Government Grants	1.1
n/a	Assets Disposed Of In year (in excess of Revaluation Reserve)	(1.0)
n/a	Deferred Consideration re PFI	(0.1)
n/a	Excess of Current Value depreciation compared to historical cost depreciation	(0.1)
n/a	Balance as at 31st March 2008	<b>173.8</b>

#### 39.4 Usable Capital Receipts Reserve

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

2006/07		2007/08
£ m		£ m
3.5	Opening balance as at 1st April	2.2
0.9	Receipts from the Sale of Assets in the Year (note 1)	1.3
(2.2)	Transferred to the Capital Adjustment Account to fund investment in the year	(1.6)
2.2	Balance as at 31st March	1.9

Note 1: For detail of the capital receipts in year see note 22 on Gains/losses on disposal of assets.

### 39.5 Financial Instrument Adjustment Account

The Financial Instrument Adjustment Account is a new reserve to reflect statutory provision that allows the negation of the impact on a Council's Income and Expenditure of the new accounting requirements for Financial Instruments.

2006/07		2007/08
£m		£m
n/a	Opening Balance as at 1st April 2007	0
	<b>Recognition of Financial Instrument as at 1<sup>st</sup> April 2007</b>	
n/a	- Loan to Pluss as a soft loan	(0.1)
n/a	- Barclays' LOBO loan carried at amortised cost	(0.1)
n/a	- Fair Value of Financial Guarantee to Torbay Coast & Countryside Trust	(0.1)
	<b>Adjustments to Financial Instruments in Year</b>	
n/a	- Loan to Pluss as a soft loan	0
n/a	- Increase in Fair Value of Financial Guarantee to Torbay Coast & Countryside Trust	(0.1)
n/a		(0.4)

### 39.6 Available for Sale Reserve

This is a new reserve introduced to reflect the changes in fair value process for Available for Sale Assets arising from any unrecognised gains or losses. These would include any Council investments held in money market funds at year end. The balance on this account at year end was £11,000.

### 39.7 School Balances

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

2006/07		2007/08
£ m		£ m
2.7	Opening balance as at 1st April	3.4
0.7	Net Additions/(withdrawals in year)	(1.0)
<u>3.4</u>	Balance as at 31st March	<u>2.4</u>

### 39.8 Earmarked Reserves

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

The reserves held by the Council are:-

<b><u>Name of Reserve</u></b>	<b><u>Description of Reserve</u></b>
<b>Equipment Fund</b>	To facilitate renewal of equipment within services where the replacement is at irregular periods.
<b>PFI Sinking Fund</b>	To provide funds to meet the liabilities under the PFI agreement over 25 years (Westlands and Homelands Schools) and to provide funding towards Paignton Community College expansion project.
<b>Early Retirement Reserve</b>	To enable the Council to meet new childrens' redundancy-related liabilities as they fall due. Built up from annual budgets for new redundancies.
<b>Financial Strategy and Change Management</b>	To fund the implementation of high level reviews and other corporate initiatives.
<b>Planning</b>	To provide for costs of Local Plan Inquiry held every 4/5 years.
<b>LGR Repayment</b>	To mitigate the impact of increased Minimum Revenue Provision on the Council's Revenue Account arising from the Council's Local Government Reorganisation Supplementary Credit Approval.
<b>IT Equipment</b>	To provide funds for priority driven replacements of IT equipment.
<b>Car Parks Machine</b>	To replace Pay and Display machines at the end of their useful life.
<b>Vehicles and Plant</b>	To finance the purchase of vehicles and plant when updating the authority's fleet.
<b>Harbours</b>	Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users.
<b>Capital Funding</b>	To reserve funding for items in the approved Capital Plan Budget.
<b>TDA Capital Reserve</b>	To support funding of TDA Capital projects
<b>Cemeteries And Crematoria</b>	To provide a reserve into which annual revenue contributions are made to fund future cremator replacement

<b><u>Name of Reserve</u></b>	<b><u>Description of Reserve</u></b>
<b>Other Specific Reserves</b>	Includes: Council Elections, Art Objects Purchase Fund, Replacement Software Reserve, Claylands Reserve, Hele Signal Maintenance Reserve, Pearl Assurance House Repair
<b>Carry Forwards</b>	Service Carry Forwards - <i>Council 26<sup>th</sup> June 2008</i>
<b>South West Water Agency</b>	This reserve is held to meet any employee and other liabilities arising from the former agency work with South West Water.
<b>Local Authority Business Growth Incentive Reserve</b>	Reserve for the business incentive grant pending the development of plans for the effective use of this grant.
<b>Landfill Allowances Trading Scheme Reserve</b>	Reserve balance arising from the surplus/deficit on the valuation of the landfill allowances compared to actual usage of landfill. This will be used to help fund any future deficits on Allowances.
<b>Waste Disposal Strategy Reserve</b>	Reflects the reclassification of part of the equipment fund as a specific reserve for Waste Disposal Initiatives.
<b>Unsupported Borrowing Equalisation Reserve</b>	Reflects the temporary surplus/deficit arising from the charges to services for the repayment of expenditure under Prudential Borrowing compared to actual interest and Revenue Provision.
<b>TPSL Reserve (Housing)</b>	To set aside amounts for potential costs of returning properties to landlords under the Private Sector Leasing scheme for homeless people.
<b>Supporting People Re provision Reserve</b>	To set aside monies to help in the commissioning of services for the re provision of the supporting people function
<b>TCT Pension Reserve</b>	To set aside monies for any potential liability for the pension costs relating to the transfer of staff to Torbay Care Trust in 2005.
<b>Disposal Costs Reserve</b>	To support the revenue costs associated with the rationalisation of the Council's assets

<u>Name of Reserve</u>	<u>Description of Reserve</u>
<b>South Devon Link Road Reserve</b>	To support the design and other planning costs associated with the proposed South Devon Link Road.
<b>Performance Reward Grant Reserve</b>	Carry forward of the unspent Local Public Sector Agreement Performance Reward Grant
<b>Insurance Reserve</b>	To set aside amounts to cover the future cost of past uninsured events which result in a loss to the Council. This reserve comprises estimates of potential liabilities arising from the Council's previous insurers Municipal Mutual Insurance Ltd not having sufficient solvency, to meet pre 1998 claims from Devon County Council, amounts for specific uninsured risks and a general reserve to meet as yet unknown insurance claims

### Analysis of Earmarked Reserve Movements

	Balance as at 1 <sup>st</sup> April 2007 £ m	Transfers between Reserves 2007 £ m	Additions to the Reserve £ m	Withdrawals from the Reserve £ m	Balance as at 31 <sup>st</sup> March 2008 £ m
<b>Earmarked Reserves</b>					
Misc. Specific Reserves	0.2	0	0.1	(0.1)	0.2
Equipment Reserves	0.4	0	0.4	(0.1)	0.7
PFI Sinking Fund	4.1	(0.1)	0.4	(0.2)	4.2
Early Retirement Reserve	0.3	0	0.2	(0.1)	0.4
Change Management & Financial Strategy Reserve	0.9	0.3	0.5	(1.2)	0.5
Planning Reserve	0.3	0	0	0	0.3
LGR Repayment Reserve	0.3	0	0	(0.1)	0.2
IT Equipment Reserve	0.4	0	0.5	(0.4)	0.5
Car Park Machine Reserve	0.1	0	0	0	0.1

<b>Earmarked Reserves</b>	<b>Balance as at 1<sup>st</sup> April</b>	<b>Transfers between Reserves</b>	<b>Additions to the</b>	<b>Withdrawals from the</b>	<b>Balance as at 31<sup>st</sup> March</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Vehicles and Plant Reserve	0.2	0	0	0	<b>0.2</b>
Harbour's Reserve	1.2	0	0.3	(0.6)	<b>0.9</b>
Capital Funding Reserve	0.9	(0.1)	0	(0.5)	<b>0.3</b>
Cemeteries and Crematoria Reserve	0.7	0	0	0	<b>0.7</b>
Carry Forwards (note 1)	2.8	0	4.2	(2.5)	<b>4.5</b>
Waste Strategy Reserve	0.1	0	0.4	(0.1)	<b>0.4</b>
Local Authority Trading Scheme	0.1	0	0	(0.1)	<b>0</b>
Unsupported Borrowing Reserve	0.4	0	0.3	0	<b>0.7</b>
TDA Agency Capital Scheme Reserve	0.2	0	0.1	0	<b>0.3</b>
South West Water Agency	0.1	0	0	0	<b>0.1</b>
LA Business Growth Incentive	0.5	0	0.5	(0.3)	<b>0.7</b>
TPSL Reserve (Housing)	0.3	0	0	(0.2)	<b>0.1</b>
Supporting People Reserve	0.2	0	0.3	0	<b>0.5</b>
TCT Pension Reserve	0.2	0	0.2	0	<b>0.4</b>
Insurance Reserves	3.9	(0.3)	0.8	0	<b>4.4</b>
Disposal and Property Costs Reserve	0.1	0.1	0.1	0	<b>0.3</b>
South Devon Link Road	0	0	0.1	0	<b>0.1</b>
Performance Reward Grant	0	0	0.6	0	<b>0.6</b>
<b>Total Earmarked Reserves</b>	<b>18.9</b>	<b>(0.1)</b>	<b>10.0</b>	<b>(6.5)</b>	<b>22.3</b>

#### 40 Section 31 Health Act (Pooled Budgets)

Under Section 31 of the Health Act, Councils are able to work with NHS bodies to assist in the delivery of services. In 2007/08 the only Pooled budget arrangement with a turnover greater than £200,000 was the Joint Equipment Store in partnership with Torbay Care Trust (formally Torbay Primary Care Trust). In this pooled budget arrangement the Council is the lead body in the operation of an equipment store for the purchase and distribution of items to support social care in the Torbay area.

2006/07 £m		2007/08 £m
	<b>Joint Equipment Store</b>	
1.1	Gross Expenditure	1.5
(0.5)	Torbay Care Trust Funding	(0.8)
(0.3)	Torbay Council Funding (Revenue)	(0.4)
(0.3)	Grant Funding (Torbay Council) and Sundry Income	(0.3)
<u>0</u>	<b>Net Expenditure</b>	<u>0</u>

#### 41 Section 137 Expenditure

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

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

## **42 Soft Loans**

A Soft Loan is where the Council has lent money, normally for service purposes, at a lower than market rate. Where this has occurred the Council adjusts, if material, the carrying value of the loan to reflect the cost to the Council of the lower than market rate.

The only significant soft loan the Council has is the loan to PLUSS in 2005 to cover the company's working capital of £0.231 million with repayments due to start in 2011.

## **43 Statement of Movement on the General Fund Balance**

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

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

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

2006/07		2007/08	
£m	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	£m	£m
(0.5)	Amortisation of intangible fixed assets	(0.5)	
(4.4)	Depreciation and impairment of fixed assets	(7.5)	
1.0	Government Grants Deferred amortisation	1.1	
(0.1)	PFI Deferred Benefit	(0.1)	
(1.4)	Write downs of deferred charges to be financed from capital resources (England and Wales)	(1.1)	
0.4	Gains or losses on disposal of fixed assets	0	
n/a	Differences between amounts to the Income and Expenditure Account and amounts to be recognised under statutory provisions relating to soft loans, stepped loans and financial guarantees	(0.2)	
(8.5)	Net charges for retirement benefits in accordance with FRS 17	(10.3)	
n/a	Reversal of Local Pay Review costs (per SI 2007/573)	(2.6)	
(13.5)			(21.2)
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>		
2.9	Minimum revenue provision for capital financing	3.3	
1.4	Capital expenditure charged in-year to the General Fund Balance	3.3	
1.0	Repayment of LGR transferred Debt – Principal to DCC	0.9	
7.2	Employer's contributions payable to the Devon County Council Pension Fund and retirement benefits payable direct to pensioners	8.0	
12.5			15.5
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>		
4.6	Net transfer to or (from) earmarked reserves	2.3	
4.6			2.3
3.6	<b>Net additional amount required to be charged to the General Fund balance for the year</b>		(3.4)

#### 44 Statement of Total Recognised Gains and Losses

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

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

- a) Surplus arising on revaluation of fixed assets – see note 39.2 to the Revaluation Reserve and note 39.3 to the Capital Adjustment Account
- b) (Surplus)/Deficit arising on revaluation of available-for-sale fixed assets – see note 39.6
- c) Actuarial (gains)/losses on pension fund assets and liabilities – see note 33 to FRS17 Pensions
- d) Collection Fund balance attributable to Torbay – see Collection Fund Statement

#### 45 Stock and Work in Progress

31 <sup>st</sup> March 2007 £ m		31 <sup>st</sup> March 2008 £ m
0	General Fund:	0.1
0.3	Operational Services	0.3
<u>0.3</u>		<u>0.4</u>

#### 46 Trading Operations

The Council is disclosing six trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of units with a turnover greater than £0.2 million in 2007/08 are as follows:

### Trading Operations 2007/08

2006/07 £ m	Operation	Description	2007/08 £ m
14.1 (14.1)	Operational Services	The Council operates a Trading Operation for a number of its services.	Turnover Expenditure Surplus/(Deficit)
<u>0</u>			<u>14.1</u> <u>(14.0)</u> <u>0.1</u>
1.7 (1.6)	Harbours' Accounts	The Council operates a ring fenced account for its three harbours.	Turnover Expenditure Surplus/(Deficit)
<u>0.1</u>			<u>1.8</u> <u>(1.6)</u> <u>0.2</u>
£m 5.1 (3.9)	Car Parking	The Council operates off street and on street car parking.	Turnover Expenditure Surplus/(Deficit)
<u>1.2</u>			<u>4.8</u> <u>(2.9)</u> <u>1.9</u>
1.1 (1.1)	Printing Services	The Council operates an in house Printing service which operates on a trading basis	Turnover Expenditure Surplus/(Deficit)
<u>0</u>			<u>1.1</u> <u>(1.1)</u> <u>0</u>
0.3 (0.1)	Industrial Units	The Council maintains a number of sites where land/office space is Rented to business to generate Employment within Torbay	Turnover Expenditure Surplus/(Deficit)
<u>0.2</u>			<u>0.3</u> <u>(0.1)</u> <u>0.2</u>
0.7 (0.3)	Land Charges	The Council has a duty to maintain the register of local land charges and respond to searches on behalf of prospective purchasers.	Turnover Expenditure Surplus/(Deficit)
<u>0.4</u>			<u>0.5</u> <u>(0.3)</u> <u>0.2</u>

## 47 Trust Funds

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

<b>TITLE OF TRUST FUND</b>	<b>Balance 31<sup>st</sup> March 2007 £000s</b>	<b>Income in Year £000s</b>	<b>Spend in Year £000s</b>	<b>Balance 31<sup>st</sup> March 2008 £000s</b>
Sports Events To provide grants to local sports men and women.	17	1	(1)	17
Stoney Park Allotment To maintain and repair the Stoney Park Allotment	9	1	(1)	9
Leanora Carlow: To provide contributions to Handicapped Children in Torbay	14	1	0	15
Thomas W Gleiman: Established to support the poor in Torbay	1	0	0	1
Mayoral (civic) Charity Account: To receive contributions to the Chairman of Torbay for distribution to local charities.	11	2	(8)	5
Education Bequests to specific schools within Torbay	17	3	(4)	16

All monies, with the exception of the mayoral charity account are held within the Council's bank account.

## **48 Undischarged Obligations – PFI Initiative**

A Project Agreement was signed on 31st March 2000 with Torbay School Services Ltd (TSS) for the provision of serviced facilities at Westlands Secondary and Homelands Primary Schools in Torquay. The contract became effective on 10th May 2000. The period of the contract is 26 years from the actual completion of the redevelopment of the Westlands School buildings which occurred on 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 actual level of payments depends upon TSS performance in providing accommodation and services. The actual payment to TSS in 2007/08 was £1.8 million (2006/07: £1.8m). The Council is committed to a maximum payment of £1.9 million in 2007/08 depending on performance.

## COLLECTION FUND SUMMARY ACCOUNT 2007/2008

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.

2006/07			2007/08	
£ m	£ m		£ m	£ m
		<b>Income</b>		
(50.9)		Council Tax	(53.5)	
(11.1)		Transfers from General Fund - Council Tax Benefits	(11.7)	
	(62.0)			<b>(65.2)</b>
	(28.3)	Income in respect of Non-Domestic Rates		<b>(28.8)</b>
	<u>(90.3)</u>	<b>Total Income</b>		<u><b>(94.0)</b></u>
		<b>Expenditure</b>		
		<i>Precepts and Demands:-</i>		
<b>6.0</b>		Devon & Cornwall Police Authority	6.3	
<b>2.9</b>		Devon Fire Authority	3.1	
<b>52.0</b>	<b>60.9</b>	Torbay Council's own Demand (including Brixham Town Council)	54.9	<b>64.3</b>
	<b>1.0</b>	<i>Distribution of previous years estimated collection fund surplus. Note 49.4.</i>		<b>0.6</b>
		<i>National Non-domestic Rates (NNDR):-</i>		
28.0		Payments to NNDR Pool	28.4	
0.2	28.2	Cost of Collection Allowance	0.2	<b>28.6</b>
		<i>Bad and Doubtful Debts/Appeals:-</i>		
		<u>Council tax</u>		
0.4		Write Offs	0.4	
0.0	0.4	Provision for uncollectable amounts	0.1	<b>0.5</b>

2006/07			2007/08	
£ m	£ m		£ m	£ m
		<u>NNDR</u>		
0.1		Write Offs	0.2	
0.1	0.2	Provision for uncollectable amounts	0.0	0.2
	<u>90.7</u>	Total Expenditure		<u>94.2</u>
	<u>0.4</u>	Deficit for year		<u>0.2</u>
<b>Movement of Fund Balance</b>				
(0.7)		Balance brought forward as at 1 <sup>st</sup> April		(0.3)
	<u>0.4</u>	Deficit for the year		<u>0.2</u>
	<u>(0.3)</u>	Balance carried forward as at 31 <sup>st</sup> March		<u>(0.1)</u>
	0	<i>Balance attributable to major precepting bodies.</i>		0
		<i>Note 49.5.</i>		
	<u>(0.3)</u>	<i>Balance attributable to Torbay Council.</i>		<u>(0.1)</u>
		<i>Note 49.5.</i>		

Note: Brixham Town Council, a local precepting authority, was established in May 2007. The Town Council 'precepts' on Torbay Council as a billing authority to fund its activities, the precept for 2007/08 was £0.212m and is received from council taxpayers in the town council's area. This precept is included in Torbay Council's demand on the collection fund.

## NOTES TO THE COLLECTION FUND SUMMARY ACCOUNT

These notes represent the statutory requirement for a billing Council to maintain a separate Collection Fund. The accounts are consolidated with the Council's main accounts.

Note: Brixham Town Council, a local precepting authority, was established in May 2007. The Town Council 'precepts' on Torbay Council as a billing authority to fund its activities, the precept for 2007/08 was £0.212m 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.

### 49 Council Tax

#### 49.1 Council Tax Base 2007/08

For Council tax purposes the number of domestic properties in each band converted to a Band D equivalent for 2007/08 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	12,374	6,651	885.31	1,365	736	21.27
B	7/9	16,413	11,095	1,032.86	2,225	1,524	24.81
C	8/9	15,732	12,521	1,180.41	2,371	1,895	28.36
D	1	9,472	8,673	1,327.96	1,473	1,351	31.90
E	11/9	4,930	5,603	1,623.06	640	750	38.99
F	13/9	2,274	3,039	1,918.17	310	418	46.08
G	15/9	1,199	1,775	2,213.27	89	138	53.17
H	2	119	156	2,655.92	6	5	63.80
<b>TOTAL</b>		<b>62,513</b>	<b>49,513</b>		<b>8,479</b>	<b>6,817</b>	
Less Allowance for Non Collection @ 2.5%			(1,238)			(171)	
<b>TAX BASE 2007/08</b>			<u><u>48,275</u></u>			<u><u>6,646</u></u>	

The number of dwellings Band D equivalent for 2007/08 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.

#### 49.2 Council Tax Income 2007/08

Precepts and Demands:

The following Authorities made a demand on the Collection Fund in 2007/08.

	£ m
Torbay Council (see note below)	54.9
Devon and Cornwall Police Authority	6.3
Devon & Somerset Fire & Rescue Authority (Formally Devon Fire Authority)	3.1
<b>Total Demands on Collection Fund 2007/2008</b>	<b>64.3</b>
Divided by Council Tax Base:-	
Torbay Council Tax Base	48,275
Brixham Town Council Tax Base	6,646
Band D Council Tax (excluding Brixham Town Council precept)	£1,327.96
Band D Council Tax (including Brixham Town Council precept)	£1,359.86

Note: Brixham Town Council's precept is included in Torbay Council's demand on the collection fund.

The income credited to the Collection Fund in 2007/08 can be analysed as follows.

	£ m
Gross Council Tax Payable for Year	74.8
Reduced Assessments (discounts)	(9.6)
<b>Actual Income from Council tax</b>	<b>65.2</b>
Less Council Tax Benefit	(11.7)
<b>Total Council tax Income 2007/08</b>	<b>53.5</b>

The difference of £0.9 million between the actual Council Tax income (£65.2m) and the estimated income (£64.3m) is due to changes during the year in the Council Tax Base. These changes include the number of eligible properties, discounts and the actual tax collection rate.

#### **49.3 Income from Business Rates**

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR Pool) managed by Central Government, which in turn pays back to Authorities their share of the pool based on a standard amount per head of the resident population.

The total rateable value as at 31st March 2008 was £77.2 m (2006/2007: £77.4m).

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 2007/08 was 44.10 pence per pound of rateable value and the non domestic rating multiplier was 44.4 pence per pound.

#### 49.4 Distribution of previous years' estimated collection fund surplus

2006/2007		2007/2008
£000's		£000's
840	Torbay Council	469
97	Devon and Cornwall Police Authority	54
47	Devon & Somerset Fire & Rescue Authority (Formally Devon Fire Authority)	27
984	<b>Total</b>	<b>550</b>

#### 49.5 Accounting for the Collection Fund balance

The opening balance for the Collection Fund for 2007/08 was £0.3m surplus. The balance as 31 March 2008 was £0.1 m surplus. Surpluses and deficits are shared with the other major precepting bodies that make a demand on the fund. The Council accounted for the Collection Fund balance in its 2007/08 Statement of Accounts as follows.

Major Precepting Bodies:-	£ 000's
Torbay Council	85
Devon and Cornwall Police Authority	10
Devon and Somerset Fire and Rescue Authority	5

In the Balance Sheet as at 31 March 2008 the Council included the disaggregated amounts for Devon & Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority as a creditor. The surplus attributable to Torbay Council has been treated as a reserve.

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

# Statement of Accounting Concepts and Accounting Policies

## General Policies and Concepts

The general policies and concepts adopted in compiling the accounts are those recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA) in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (SORP).

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

## Fundamental Accounting Concepts

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

### Qualitative Characteristics of Financial Information:

- Relevance

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

- Reliability

Financial information will be reliable if:

- it can be depended upon if it reflects the substance of the transactions and other events that have taken place
- it is free from deliberate or systematic bias
- it is free from material error
- it is complete within the bounds of materiality
- it has been prudently prepared (under conditions of uncertainty)

- Comparability

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

- Understandability

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

### Pervasive Accounting Concepts

- Accruals

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

- Going Concern

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

- Primacy of Legislative Requirements

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

## **Accounting Policies**

Accounting Policies are defined in FRS18 as those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are reflected in the financial statements. These include estimation techniques that have been used in applying the policies. The accounting policies that are significant to the understanding of the Council's accounts are listed below:

### **Reserves and Provisions**

#### **Reserves:**

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

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

Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

The purpose of each of the Council's reserves is explained within the notes to the core financial statements.

#### **Provisions:**

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

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

The Council has recognised by means of a provision potential costs associated with the backdated payments for the implementation of the Local Pay Review. The Council intends to fund the majority of these costs by seeking a capitalisation directive for equal pay. The Council has used the powers in Statutory Instrument 2007/573 supported by LAAP Bulletin 68 and has reduced the charge to its revenue account in 2007/08. This has generated both a credit in the Statement of Movement on General Fund Balance linked to an Equal Pay Back Pay account on the Council's balance sheet.

## **Tangible & Intangible Fixed Assets**

### Revaluation Reserve and Capital Adjustment Account

From 1<sup>st</sup> April 2007 the Revaluation Reserve replaced the Fixed Asset Restatement Account. This account will reflect differences between an asset's historical cost and the current value of the asset. As at 1<sup>st</sup> April 2007 this account was set at zero with the closing balance on the old Fixed Asset Restatement account transferred to the new Capital Adjustment Account along with the closing balance on the Capital Financing Account. Historical cost and current value records will be kept on the Council's asset register to record the movements in both values for each asset. Any differences between the current value depreciation charged to services and the asset's historical cost depreciation will be adjusted for between the Revaluation Account and the Capital Adjustment Account.

#### (i) Categorisation

Fixed Assets are categorised into classes:

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

- **Operational Assets**

Assets held and occupied for the direct delivery of services or administrative purposes on a continuing basis, including infrastructure and community assets.

- **Non- operational Assets**

Assets held but not directly occupied or used in the delivery of services, including assets held primarily for investment purposes, surplus assets awaiting disposal and land and buildings in the course of development but not yet completed or not yet having the “substance” of an asset ( assets under construction).

(ii) Recognition

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

De-minimis -

- A general de-minimis limit of £25,000 is applied to recognition of expenditure on Tangible Fixed Assets. Exceptions to the de-minimis limit are made for projects or individual purchases under £25,000 where there are specific service requirements to do so. e.g school minor improvement works which are funded under Special Government Initiatives and fleet vehicle purchases.
- A general de-minimis limit of £50,000 is applied to recognition of Intangible Assets with exceptions as above.

(iii) Measurement

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

- Intangible assets - purchase cost, net of amortisation to revenue over the economic life of the investment.
- Operational land & buildings, vehicles, plant & equipment - lower of net current replacement cost or net realisable value in existing use. For non-specialised operational assets, net current replacement cost is calculated on the basis of Existing Use Value (EUV); for specialised

operational assets, net current replacement cost is calculated on the basis of Depreciated Replacement Cost (DRC).

- Infrastructure – depreciated historical cost. Infrastructure assets transferred from Devon County Council upon Local Government re-organisation in 1998 are held at the value disaggregated by the County Council using tax base, subject to depreciation.
- Community assets - historical cost.
- Investment property and surplus assets - lower of net current replacement cost or net realisable value. Net current replacement cost is calculated on the basis of Market Value (MV).
- Assets under construction (Work in Progress) – where capital projects are incomplete and the assets under construction are not yet operational at the year end, the added value of any significant works in progress is assessed by the Council's professional valuer pending the issue of a revaluation certificate upon completion of the works or expenditure to date is used in proxy. For assets valued at historical cost (infrastructure and community assets) costs are disclosed under operational fixed assets as they are incurred. The value of Assets under construction from a prior year where a new valuation has been issued is cleared to the Revaluation Reserve.

(iv) Revaluation (assets held at current cost)

All land and building assets are regularly revalued under a 5-year rolling programme. All asset valuations are carried out in accordance with the Statements of Asset Valuation Practices and Guidance notes published by RICS and CIPFA. The management of property valuations is undertaken by Sam Partridge A.R.I.C.S. who is the Estates Manager within the Financial Services of Torbay Council.

Assets where a material change (e.g. capital expenditure on improvement or enhancement) occurs during the year are revalued as at the time of the change. Where the revaluation is after capital expenditure has been occurred in the year, the revaluation is adjusted to reflect the value of the expenditure in year.

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

Where a fixed asset is included in the balance sheet at current value, the difference between the amount at which the asset was included in the balance sheet immediately prior to the latest

revaluation and the new value is credited or debited to the Revaluation Reserve.

Where capital expenditure on an asset has been incurred, but the asset has not been revalued, the expenditure is added to both the historical and current value of the asset, unless there is clear evidence that the expenditure has not “added” value to the asset.

(v) Expenditure in Year and Revaluation (assets held at current cost)

Assets where a material change (e.g. capital expenditure on improvement or enhancement) occurs during the year are revalued as at the time of the change. Where capital expenditure has occurred in the year and a new valuation certificate has not been issued the expenditure in year is deemed to have increased the current value of the asset by a “pound for pound” amount. Where expenditure is assessed as not adding value to the asset the corresponding value will be written off as impairment or the asset revalued at a lower amount prior to the capital expenditure in year is added to the value of the asset.

(vi) Depreciation

Depreciation is provided for on all Tangible fixed assets which are either Operational or Surplus and which have a determinable finite life. Depreciation is not normally provided for freehold land, community assets, Non-Operational investment properties or assets under construction. The Value of accumulated depreciation on Fixed Assets is disclosed in Note 21

Provision for depreciation on buildings and other structures is made on a straight-line basis over the remaining life of the asset as estimated by the Council’s Valuer, making an allowance for any residual value. Annual depreciation is calculated based upon the opening Balance Sheet value for each asset unless a material change has occurred during the financial year, in which case a pro-rata adjustment is made.

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

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

Where grants or external contributions are received to fund the acquisition of Fixed Assets, the amounts are first credited to the Capital Grants and Contributions Unapplied Accounts on an

accrual basis and then transferred to Capital Grants and Contributions Deferred Accounts when applied to finance capital expenditure. Annual sums are written down from the Capital Grants and Contributions Deferred Accounts to the relevant service revenue account to offset depreciation charges in line with the depreciation policy applicable to each asset. Where a grant cannot be allocated to a specific service asset the grant is written down to Non Distributed costs.

(vii) Amortisation of Intangible Assets.

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

(viii) Impairment

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

Where an impairment loss is caused by a clear consumption of economic benefits (e.g. physical damage or deterioration in the quality of the service provided by the asset) the loss is charged to the service revenue account. For other instances of impairment the loss is written off against the Revaluation Account then if the impairment is greater than the value of the asset in the revaluation account written off to the capital adjustment account.

Where capital expenditure in year has not added value to an asset the expenditure is written off to the Income and Expenditure account as an impairment.

(ix) Charges to Revenue for Fixed Assets

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

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

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

Services which operate on a ring fenced basis, such as Operational services and the Harbours accounts, will also be charged a rate of return on their assets based on their opening Balance Sheet value, using a capital interest rate set by CIPFA. However for external reporting these charges will be reversed as they are not part of the “Total Cost” of services.

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

#### (x) Disposal and gains or losses on disposal

Upon disposal the net carrying value of the asset disposed of is written off against the Capital Adjustment Account and then, if there is any accumulated gains in the revaluation reserve, an adjustment is made between the two accounts to the value of the gain.

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

The Council also receives capital receipts not directly related to the disposal of an asset. These include the Council's share of Right to Buy Receipts arising from the Council's housing stock which was transferred to Riviera Housing Trust in 2001. These are regarded as deferred receipts arising from the original disposal and are accounted for as a refinement of the estimated gain/loss made on the original disposal, and hence posted as gains/losses in the Income and Expenditure Account of the year of receipt.

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

Where the council receives a premium in relation to a lease that is treated as an operating/finance lease as appropriate and the premium is spread over the life of the lease. However where the lease using FRS5 'substance over form' has the characteristics of a disposal the asset is treated as a disposal and the premium recognised as a capital receipt.

#### (xi) Deferred Charges

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

#### (xii) Foundation Schools

The assets of Foundation schools remain with the Governing Bodies which are exempt charities. However these assets can only be used as schools and the value of Foundation schools is included in the Balance Sheet value of the Council's Fixed Assets. The net value of the 7 Foundation Schools (excluding the PFI school where the building asset rests with the contractor)

included in the Fixed Assets on the Balance Sheet is £56 million.

#### (xiii) Voluntary Aided and Voluntary Controlled Schools

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

### **Financial Instruments**

#### a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus the interest due and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement. The exception is the stepped rate LOBO loan the Council has with Barclays. This has been recognised at amortised costs and an effective interest rate calculated for the maximum duration of the loan. This effective interest rate is charged to the Income and Expenditure account.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

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

Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

#### b) Financial Assets

Financial assets are classified into two types:

loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

#### **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus interest due and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the council has made a loan to PLUSS limited at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a higher effective rate of interest (5%) than the rate receivable from PLUSS (0%), with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

### **Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

instruments with quoted market prices – the market price

other instruments with fixed and determinable payments – discounted cash flow analysis

equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

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

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

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

Any changes in the fair value of the asset are reflected in the carrying value of the asset and the changes in year recognised as interest in the income and expenditure account

#### **Instruments Entered Into Before 1 April 2006**

The council entered into a financial guarantee in relation to PLUS that is not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in Policy 3.

Pension guarantees are deemed to be outside the scope of financial instruments and have not been recognised. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed.

#### **Financial Instruments – Statutory Overrides**

Statutory Instruments have been introduced to negate the impact on Council Tax of the various changes to the Council's accounts as a result of implementing the Financial Reporting Standards for financial instruments. The Council has used the following provisions:

- SI 2007 573 - provision to mitigate the impact of Soft Loans
  
- SI 2008 414 – provision to mitigate the impact of Financial Guarantees up to 9<sup>th</sup> November 2007 and the impact of the recalculation of interest on an amortised costs basis on stepped rate loans. Note the Council has not used the provision in SI 414 2008 to mitigate the ongoing impact of the interest on the stepped rate LOBO with Barclays.

#### **Financial Instruments – interest due at year end**

On both investments and borrowings any interest due either to or from the Council is added to the value of the asset or liability,

#### **Revenue Provision (Debt Redemption)**

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

represented by the Capital Financing Requirement, subject to all reductions allowed under the Regulations.

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

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

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

The Local Authority (Capital Finance and Accounting) (Amendment) Regulations. (SI 2008/414) supported by statutory guidance on the Minimum Revenue Provision further changed the method of calculation from 2008/09. Council had the option of adopting the new guidance for 2007/08, however Torbay Council has not taken this option. The Council will adopt the new requirements for 2008/09 which will reduce the surplus contributions to the Unsupported Borrowing Equalisation Reserve.

### **Operating Leases**

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

### **Long Term Contracts (PFI)**

Westlands and Homelands Schools – Private Finance Initiative.

The Council has entered into a 26 year contract with a private sector partner, for the provision of serviced facilities at Westlands Secondary and Homelands Primary Schools in Torquay. A Unitary Charge is paid for all the services received and this is recorded in the Council's Income and Expenditure Account.

The Project Agreement was signed on 31st March 2000 with Torbay School Services Ltd. The contract became effective on 10th May 2000 at which time both parties agreed that the conditions precedent had been satisfied. The contract is a "design, build, finance and operate" PFI contract. Following identification of the amount applicable to some services, the remaining elements of the Unitary Charge includes other services which are not separable under the terms of the contract and therefore FRS 5 applies. An analysis of the benefits and risks associated with the properties indicated that upon commencement of the headleases (following final completion of the construction phases in August 2002) the properties are not recognised on the Council's Balance Sheet as Fixed Assets. Deferred assets (prepayment) representing the expected fair value of the residual assets remaining at the end of the contract period (year 2027) are being built up in the Council's Balance Sheet over time.

The Council is in receipt of Government support for part of the cost of the scheme. The Council set up a sinking fund reserve to set aside some of the grant proceeds so that the scheme can be funded evenly from Government support over its operational life.

#### **Debtors and Creditors – (Receivables and Payables)**

The Council operates its revenue accounts on an accrued income and expenditure basis. This means that all sums, which are due to be remitted to the Council in the relevant financial year, are recorded in the accounts whether or not the cash has actually been received or paid in the year. This will include customer and client receipts, employee costs and supplies and services. Where the exact amount of the sum is unknown an estimate will be made based on historical knowledge of the type of transaction and the value of similar payments. An exception is where there are regular bills, such as utilities and staff travel payments where, if not material, no accruals have been made as over a period of time the number of payments per year will even out.

In addition, to meet earlier closure requirements where the exact value of a transaction or a number of transactions is not yet known estimates of the amounts due/owed have been made.

The Council makes an assessment of the impairment of its debt based on the uncollectability of its

debt outstanding. The level of the provision depends on the type and age of debt outstanding. Internal transactions between different sections of the Council, including schools have been netted off so to have no impact on the Council's balance sheet.

### **Developers' Contributions**

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

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

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

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

### **Government Grants (Revenue)**

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

### **Government Grants (Capital)**

Capital Grants are allocated to the Government Grants Unapplied account as they are received

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

### **Stock and Work in Progress**

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

A general de-minimis limit of £20,000 is applied to the recognition of Stock.

### **Local Authority Trading Scheme (LATS)**

DEFRA allocates tradable landfill allowances to each Waste Disposal Authority in England. The Council has adopted a "lower of cost and net realisable value" policy of accounting for the value of allowances as at 31<sup>st</sup> March 2008. For this purpose CIPFA have provided a value.

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

Any purchase of future year LATS vintages will not be recognised in the Income and Expenditure Account until the year the vintage related to. In the meantime the future years LATS vintage will be carried on the balance sheet as an investment asset at cost.

### **Central Overheads**

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

charged to services based on an appropriate (fair) basis. E.g. Accommodation on floor area, personnel on head count.

### **Best Value**

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

### **Pensions**

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

In the Statement of Movement on the General Fund Balance there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

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

A defined benefit scheme is where retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits.

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

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

The Discount Rate for scheme liabilities is based on a "current rate of return on a high quality corporate bond of equivalent currency and term to the Scheme Liabilities" which is often referred to as "AA Corporate Bond Rates". The actuary has used discount rates based on the annualised yield on the iBoxx over 15 year rated corporate bond index as at 31<sup>st</sup> March 2008.

The overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are approximately 2% higher (1% higher 2006/2007) after the replacement of employers' contributions by FRS17 related costs. Net operating expenditure is also higher by 2% (1% higher 2005/2006) than it would otherwise have been.

The requirement to recognise the net pensions liability has reduced the reported net worth of the Council by 24% (34% 2006/2007).

Torbay Council in 1998 agreed to fund a tax base share of Devon County's enhanced pension payments (unfunded benefits). As this is a liability to Devon County Council and not to a pension fund these costs have not been treated as pension related and therefore FRS17 does not apply to these costs.

### **Financial Relationships with Companies**

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

The Council owns Torbay Enterprise Agency, Torbay Development Agency Limited and has representation on the board of SWERCOTS Ltd, SWIGFL, Devon and Cornwall Connexions and the PLUSS Organisation but these companies are not consolidated into the Council accounts, as they are not material in terms of the amounts and impact on the Council.

## **Financial Relationship with Torbay Care Trust**

The Council entered a “partnership agreement” with Torbay Care Trust (formally Torbay Primary Care Trust) on the 1<sup>st</sup> December 2005. This partnership was to enable the Care Trust to provide Adult Care Services delegated by the Council. Council staff working in Adult Social Care transferred employment to the Care Trust. The Council however remains accountable for Adult Social Care and any overspends on the Adults Social Care function provided by the Torbay Care Trust.

Section 31 of the Health Act permits Primary Care Trusts to exercise various local authority functions and for local authorities to exercise various Primary Care Trust functions. The Torbay Primary Care Trust was re designated as a Care Trust under the Health and Social Care Act 2001. The Care Trust remains within the Department of Health accounting boundary.

The Council and the Care Trust are accounting for the partnership on the basis that the Council is funding the Care Trust to undertake delegated activities. The Care Trust will continue to provide the former Primary Care Trust activities. The Care Trust will account for income and expenditure on the Adult Social Care functions in the appropriate service category and will account for the funding received for the Council as “providing” income. The Council will show the funding paid to the Care Trust for providing the delegated functions within its Income and Expenditure Account. The partnership will also be part of the Related parties note.

As the Council is accountable for social care, government grants are accounted for within the Council’s Income and Expenditure Account and then passed to the Care Trust as part of the overall funding. In addition the Council continues to support a number of functions on behalf of the Care Trust, in particular, a debtor’s function for charges for social care.

In addition the Council is the lead body for a pooled budget with the Torbay Care Trust for the Joint Equipment Store. (See Note 40).

## **VAT**

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

**Transferred Debt**

In 1998 after attaining Unitary status the Council agreed to pay a tax base share of Devon County Council's borrowing as at 31/3/98. The Council funds the interest and principal payments (as payment to Devon's minimum revenue provision) to Devon County Council from its revenue budget. The debt outstanding is shown as a liability on the Balance Sheet.

## **FINANCIAL CERTIFICATES**

### **The Statement of Responsibilities for the Statement of Accounts**

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

The Council is required:-

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

#### **Full Council Approval of the Statement of Accounts 2007/2008**

I confirm that the Council completed its approval process of the Statement of Accounts 2007/2008 on the 26th June 2008 at a meeting of the Council.



Councillor Hytche  
Chairman of the Council

Date 26<sup>th</sup> June 2008

## **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.

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## **The Chief Finance Officer's Statement**

The Statement of Accounts as required by the Accounts and Audit Regulations 2003 amended 2006 is set out on pages 3 to page 130 and has been prepared in accordance with the accounting policies set out on pages 109 to 130. In my opinion it presents fairly the financial position of the Council at 31st March 2008 and its income and expenditure for the year ended 31st March 2008.

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

The Statement of Accounts 2007/08 were authorised for issue on 17<sup>th</sup> September 2008. This is also the date up to which events after the balance sheet date have been considered.



R. THORPE BAC PFA  
Director of Finance  
17th September 2008

### **Independent Auditors' Report to the members of Torbay Council**

We have audited the financial statements of Torbay Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial statements have been prepared under the accounting policies set out within them.

### **Respective Responsibilities of the Chief Financial Officer and Auditors**

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Financial Statements.

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

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

We report to you our opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council and its income and expenditure and cashflows for the year.

We review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Governance Statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

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

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

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

#### **Basis of audit opinion**

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

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

#### **Opinion**

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of Torbay Council as at 31 March

2008 and its income and expenditure and cash flows for the year then ended.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP

Bristol

30 September 2008

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

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

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

### ***Auditor's Responsibilities***

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

### ***Conclusion***

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, Torbay Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

### ***Best Value Performance Plan***

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 28 December 2007. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan

## Certificate

We are required to certify that the audit of the financial statements has been completed in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

The audit cannot be formally concluded and an audit certificate issued until investigations into parking enforcement arising from an objection by an elector has been formally completed. We are satisfied that the amount which is the subject of the objection will not have a material effect on the financial statements.



PricewaterhouseCoopers LLP  
Bristol

30 September 2008

## TORBAY COUNCIL

### ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2007/08

#### **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, and which includes arrangements for the management of risk.

Torbay Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council's website at [The Council's Constitution](#) or can be obtained from Democratic Services. This statement explains how Torbay Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control

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

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and

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

The governance framework has been in place at Torbay Council throughout the year ended 31<sup>st</sup> March 2008 and up to the date of approval of the annual report and statement of accounts.

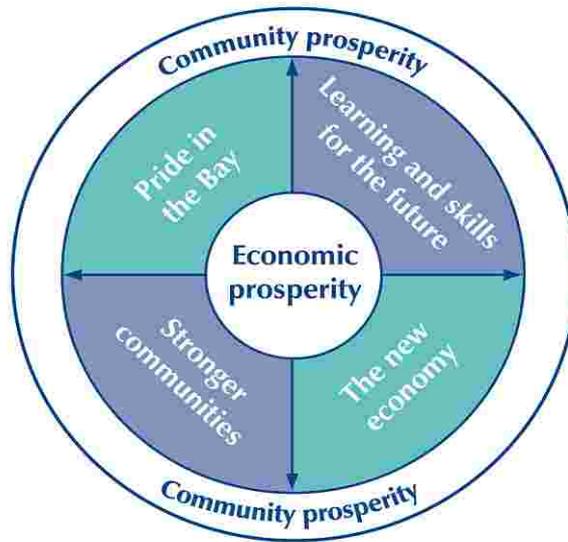
## **The Governance framework**

The key elements of Torbay Council's governance framework are summarised below:

### **Arrangements for identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**

Torbay Council, Torbay development Agency (TDA), the Torbay Strategic Partnership (TSP) and more specifically the Mayor have begun the process of mapping out the future. The Community Plan for Torbay, developed during 2006 and early 2007, was formally published in June 2007 and has been accepted as the basis of the overall priorities for the area and for the Council. Following the 2007 election, awaydays were held with the Cabinet in July, September, October and December to develop revised priorities for the Council in the light of the adopted Community Plan. This resulted in modifications being made to the 2007 draft Corporate Plan to reflect the new Administration's priorities. The awaydays highlighted above were also used to identify the priorities of the Council for 2008/09 in implementing its responsibilities under the Community Plan. The Mayor and his fellow Members have also undertaken consultation with the public through the "Torbay Connect" caravan on a regular basis. Members and officers have also undertaken consultation with stakeholders when new strategies and policies have been developed.

The new **Community Plan** "Turning the Tide" was launched by the Mayor in July 2007 and described a vision to drive forward economic prosperity based upon four key themes. It is best demonstrated in the diagram below as a wheel with Economic prosperity as the hub: -



The Council works closely with and supports the work of the Torbay Strategic Partnership. This developed the Community Plan referred to above and is fully accepted by all. The partnership has held four events with the wider community, after significant consultation, to look at aspects of how priorities identified in the Community Plan contribute to the New Economy theme. So far two events have taken place looking at the Stronger Communities theme and community engagement.

To complement the Community Plan, the **Mayoral Vision** was launched in October 2007. A series of Visioning Events were held with the local community, the first in July 2007 to explore ideas and themes and to examine wider issues about the image and identity of Torbay and more specifically to start the process of developing the 'Vision' for the Built and natural Environment. Several 'Connect' Caravan events were held and the general public invited to give their ideas or projects that could be included in this Mayors Vision review. Press articles referred also to the Council's website where a Questionnaire could be completed on line with ideas before the closing date of 3<sup>rd</sup> August 2007. A further Visioning Event took place on 9 October 2007 and well over 120 people attended from a cross section of the Community along with key stakeholders. The final stage translated the Vision into 19 transformational projects and the Action Framework Plan gives a full outline of the whole process undertaken. It supports the Mayoral Vision for Torbay and is a companion document that will inform the Local Development Framework (LDF) Core Strategy and should, in tandem with the Mayoral Vision, assist the LDF in providing clear strategic direction for the regeneration of the built environment of Torbay. The Action Framework Plan will guide public and private sector investment. A Developer Open Day was held on 12 February 2008 from which expressions of interest are beginning to emerge and these will be taken forward in due process during 2008-09 and later years.

The Community Plan 'Turning the Tide for Torbay' 2007+ shows how economic prosperity is the way to drive out poverty and need and the inequality that we see between our communities. Through raising the economic prosperity of the Bay we will strive for more and better jobs, a decent wage and affordable homes that bring prosperity to our communities and make them thrive.

The **Corporate Plan** sets out the council's vision, its core principles and the priorities for 2007-11. The plan shows, at a high level, how the Council is contributing in the shorter term to delivering the new Community Plan 'Turning the Tide for Torbay' 2007+. The council's corporate plan is its main statement of intent for the coming three years.

The Council and the Care trust have worked together to identify the needs of the area, especially in respect of Health matters, and published a **Joint Strategic Needs Assessment**. Once again this followed considerable consultation with stakeholders.

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

Further information in respect of planned outcomes are contained within the Council's Local Area Agreement and Best Value Performance Plan.

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

The Council has also set up **Community Partnerships** where local ward members and stakeholders can discuss concerns and issues with their constituents.

#### **Arrangements for reviewing the authority's vision and its implications for the authority's governance arrangements**

The Community Plan is delivered through the Local Area Agreement which is subject to an annual review and refresh. The Performance Indicators and stretch targets included in the LAA are also monitored and refreshed through this process.

The authority has also kept under review other key initiatives such as the actions arising from the joint Strategic Needs Assessment for Health and Well Being, development of an Older Persons Strategy etc. These have resulted in a revised list of priority issues which were adopted by Council at its meeting on 28 February 2008. The Council is currently developing its revised Local Area Agreement and through the Torbay Strategic Partnership has developed a long list of priority issues now prioritised to 35 preferred issues to be incorporated in the Local Area Agreement.

Regular consultation events are also used to inform the development and review of the Authority's vision.

The budget setting process includes detailed scrutiny of proposals and their links to the Council's vision, priorities and stakeholder views.

Issues identified in the corporate assessment and the Community Plan can be monitored and tracked through the Corporate Plan and Business Plans and to performance as recorded on SPAR and reported to Performance Improvement Meetings and Overview and Scrutiny.

The Council is also very mindful that the staff are also key stakeholders and as such, senior officers and Members have taken part in road shows and has established "Team Mercury" scheme whereby staff outside the normal cascade arrangements are used to feed information both up and down the structure.

**Arrangements for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources**

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

Users in service specific groups and GUS survey techniques are used along with specific Viewpoint and YEP surveys to assess quality of service and policy changes to be made in light of user feedback. All these surveys and results are publicly accessible on the Council website

Performance Improvement Meetings (PIMs) have been established for all the Council's Business Units including the Torbay Care Trust which took over the Adult Social Care Function with effect from December 2005 and is a partnership between Torbay Council and the Primary Care Trust. These meetings monitor performance against performance indicators and also consider progress against the Corporate Plan, Business Plans, delivery of Service Level Agreements, approved budgets and also consider any other performance issues. The Boards comprise the relevant Scrutiny Member, Cabinet Member and Director and the relevant Assistant Director for the service. Any key issues or concerns are then reported to the Overview and Scrutiny Board.

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

The Council participates in a range of Benchmarking clubs including those provided by CIPFA, SOCITM, PWC, as well as the Audit Commission comparative data sets and uses the data to measure performance against comparators and to identify authorities from whom the Council could learn. In addition peer reviews of Planning and Overview and Scrutiny reviews have been undertaken and monitoring of these is via the PIMs.

The Council is continually looking for efficiencies and service improvements including regular meetings of the Torbay Change Group whose remit also includes monitoring and developing change management within the Council. In addition there are a number of other corporate groups that deal with the specific remits such as identification and monitoring of efficiency savings across the Council, the continued extension of the procurement function and the outcomes of any business re-engineering exercises, and these report up to the Change Group. At a strategic level, the Council has also implemented a Reshaping initiative which will introduce new ways of working within the Council and should achieve improved service delivery that is more attuned to client and customer needs.

There is also a range of consultation and feedback mechanisms for obtaining feedback from customers.

**Arrangements for defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

The **Council's Constitution** sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Following a referendum, Torbay moved to an Elected Mayor form of governance. The first Elected Mayor took up office in October 2005 following a Mayoral election. The full Council of 37 elected Members, including the mayor, is responsible for approving the Mayor's budget and the policy framework. The Mayor is responsible for decisions within this framework and has been supported by a cabinet of 8 other Members who oversee and advise on specific areas of Council business. Prior notice of matters for Mayoral or Officer level decisions that are classed as key decisions is published within the Forward Plan. Cabinet meetings are public and notice of all areas for discussion is published in advance. Matters outside of the budget and policy framework are referred to full Council for decision.

The **Council's Constitution** is designed to ensure the Council acts lawfully at all times and to ensure compliance with its policies and procedures. The Constitution includes Standing Orders, Financial Regulations, Contract Procurement rules and the budget and policy framework. These are underpinned by Codes of Conduct for officers and Members, Gifts and Hospitality rules and by the Authority's Code of Corporate Governance.

The **Schemes of Delegation** to Officers and Members are contained within the Constitution and are subject to regular review. The Council has a well developed and successful Scrutiny function with the Overview & Scrutiny Board which undertakes a range of reviews into policies and performance and also has the facility to call in Mayoral or Officer decisions and makes recommendations to the Cabinet / Council as appropriate. Overview and Scrutiny arrangements were reviewed in 2007/08 to reflect the new Community and Corporate Plans.

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

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

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

The Authority has developed a number of **Local Protocols** (including in relation to Member and Officer Relations; Planning Matters and the role of the Monitoring Officer), all in line with good Corporate Governance. These documents are available on the Council’s website. In addition, the Council’s Standards Committee comprises 50 per cent Independent Members and is chaired by an Independent Member. This far exceeds the legal requirement for involvement of Independent Members and the Committee has been given responsibility for promoting high ethical standards amongst Members; monitoring Member training; and dealing with complaints against Members under the Local Protocols.

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

**Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council’s intranet contains a range of policies, procedures and guidance for all staff including Human Resources (HR) policies, Computer Security Policy, Freedom of Information Policy and Data Protection Policy and the Corporate Plan and Constitution. This is supported by regular updates from HR in respect of new policies and guidance.

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

Corporate induction courses are run on a regular basis and managers have the responsibility to ensure that all new staff attend these induction events. They are also responsible for more local induction arrangements.

All senior officers above a certain grade and those responsible for negotiating contracts etc are required to provide HR with a register of their personal interests.

The Council has an up to date Fraud and Corruption Policy which has been communicated to all staff and is available on the Council's intranet which was discussed and approved by the Council's Standards Committee.

The Standards Committee's remit includes monitoring the conduct of Members and investigating complaints in respect of individual Members and is comprised of a majority of independent co-opted Members.

**Arrangements for reviewing and updating Standing Orders and Financial Regulations, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

The Council's Constitution is continually reviewed throughout the year by a Constitution Working party and includes various codes of conduct, as well as defining the relative responsibilities of the Council, the Mayor, Scrutiny Board and Chief Officers. This also includes the Council's Standing Orders and Financial Regulations, and is based upon recommendations from officers in order that the Council continues to operate in an efficient and effective way.

Directors and Assistant Directors are responsible for risk management within their departments, with advice and support from the Council's Risk Management officer. Business Plans identify the key risks affecting Business Units and identify control measures where applicable. The Director of Law and Support has been given responsibility for overseeing the implementation and monitoring of the risk management strategy and policy and provides regular progress reports to the Torbay Change Group which has responsibility for monitoring the approach to Risk Management and efficiency savings. The overall risk register has been considered by the Overview & Scrutiny Board and Cabinet as part of the process.

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

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

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

The role of Audit Committee was undertaken in the 2007/08 financial year by the Overview and Scrutiny Board. The Board receives the Internal and External Audit Plans, the Head of Internal Audit's annual opinion and 6 monthly updates on achievement and issues raised, and the External Auditors Annual report and Audit Letter. The Council is currently reviewing this process and will revert to the previous practice of having a stand alone Audit Committee with enhanced roles and responsibilities in 2008-09.

**Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The system of internal financial control is based on a coherent accounting and budgeting framework including Financial Regulations, Contract Standing Orders, Scheme of Delegation and accountability. In particular the system includes: -

- Medium-term financial plans covering both revenue and capital spend which provides a framework for the planning and monitoring of resource requirements. These also link in with the business development proposals which are fed by the Strategic Plan
- Operation of the Capital Strategy aims to ensure that investment is linked to Strategic Objectives. Bids for capital and other asset management funding require an effective 'business case' linked to Strategic Objectives, and progress in delivering projects is formally monitored by the Capital Asset Management team, Councillors and Directorate Management Teams. Linked in with this is the Asset management Plan which ensures that assets are only retained for effective business purposes.

Financial stewardship in respect of both capital and revenue is reported to Overview and Scrutiny and Cabinet quarterly, and is considered regularly by the Strategic Management Team and Performance Improvement Meetings. In addition Directorate Management Teams also consider their respective budgets on a regular basis. This is supported by an established budget monitoring process by managers and Accountancy staff.

Directors and Business Unit Managers are required to produce an annual statement of Internal Control for their areas which includes statements about risk and the internal control framework. This is supported by Internal Audit who help embed risk management by cyclical audits and other risk management initiatives including some risk control self assessment workshops.

### **Arrangements for Whistle-blowing and for receiving and investigating complaints from the public**

The **Fraud & Corruption Policy, Fraud Response Plan and Whistle blowing Policy** were reviewed and updated in 2007. The Policy is available on the website, intranet and direct from Internal Audit. The Authority also subscribes to Public Concern at Work which provides a staff helpline.

The Council introduced new procedures for dealing with customer complaints in October 2006 and this provides the means for customers to feedback concerns or issues. Data is collected from all service areas regarding complaints including the number of complaints they have received, the complaint issue and the resolution. This information is analysed and reported back quarterly to Senior Managers along with the actions taken to improve services where there are relevant learning points. An Annual report is also produced which gives an account of the complaints and compliments received and handled by the Council and Ombudsman complaints during the previous financial year. This report is presented to the Overview & Scrutiny Committee. Customer Care standards have been agreed and published

### **Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

Induction sessions took place for elected Members on 8 and 9 May 2007 following the local elections. Training for Committee Chairs took place in July 2007. A dedicated officer was identified to work with the Members and now the Council has a Member development Charter and associated plans, and was recently awarded the South West Charter for Elected Member Development. All Councillors have annual development plans, and the Council introduced a competency framework and personal development plans and, more recently has introduced our new skills framework.

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

Strategic roles and development needs are identified and assessed through Senior Management Forums, annual RADARs and Management Team Meetings

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

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

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

The Council used the Audit Commission stakeholder analysis to improve local relations. Regular consultation events are held with public and voluntary services plus regular business forum meetings. Other consultation and feedback surveys are also issued throughout the year including via the refreshed Viewpoint Panel.

Torbay Council's Call Centre is based in Torquay and is open 6 days a week –

- Monday: Friday 8.30am - 5.30 pm
- Wednesday: 9.30am - 5.30pm
- Saturday: 8.30am - 12pm

The Call Centre deals with a wide variety of calls including, but not limited to, the following:

- Housing/Council Tax Benefits
- Council Tax and Business Rates
- Planning
- Anti-Social Behaviour
- Waste issues
- Street Scene

In December 2007 a new telephony system was installed to improve our service to customers.

This system enables us to manage our calls more effectively:

- easier access for customers to contact the Council
- 90% of customers get through to an operator first time
- average waiting time of under 1 minute
- we offer an out-of-hours messaging service

All customer contact received via our Call Centre or our Connections offices is documented to ensure the information is actioned by, or forwarded to, the relevant department, as necessary.

The Council also uses its libraries and Tourist Information Centres as initial contact points from which enquiries can also be dealt with.

The Consultation and Engagement framework is available on the website indicating mechanisms and groups and how the Consultation and Engagement Group effectively manages engagement with public and voluntary sector. There are also 12 Community Partnerships and regular newsletters to Viewpoint Panel and residents magazine Torbay View. Councillors have also been encouraged to produce their own means of communication and, for example a number have created their own website.

**Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements**

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

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

The Council has also established appropriate arrangements in respect of service specific partnerships such as the Torbay Care trust and the Torbay Coast & Countryside Trust.

**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 Internal Audit's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

Overall responsibility for the governance framework including the system of internal control rests with the Mayor and Chief Executive and they receive regular reports from the Director of Finance (Section 151 Officer) on financial issues and the Monitoring Officer on legal issues as and when appropriate. This includes regular budget monitoring information and the Medium Term Financial Plan.

This is supported by an annual review of Internal Audit by the Director of Finance which reviews compliance with the CIPFA Code of Practice and the effectiveness of the audit service. In addition the Council's external auditors completed a review of Internal Audit in March 2008. No major issues have been identified although audit resources have been limited and potentially this may have reduced their effectiveness. The service has however maintained the level of assurance it is able to provide to management. Resource issues have been addressed as part of the 2008/09 budget process.

As part of the Reshaping of the Council, a post of Executive Head of Governance has been created and this will strengthen governance arrangements both within the Council and with partners.

The Council's Constitution is continually reviewed throughout the year by a Constitution Working party and defines the relative responsibilities of the Council, the Mayor, Scrutiny Board and Chief Officers. This also includes the Scheme of delegation to Mayor, Cabinet, Committees and Officers, and also the Officer Scheme of Delegation.

### **Internal Audit**

The Council's Internal Audit Plan, which is risk based, is agreed annually with Chief Officers and the Council's Overview and Scrutiny Board. This provides the basis for the review of internal control and governance within the Council and includes the following: -

- Annual reviews of the Council's key financial systems by Internal Audit against known and evolving risks;
- Cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks based on a detailed risk assessment which considers the strategic and operational risks identified in the Corporate Risk Register and Business Plans and also includes consideration of materiality, sensitivity and previous audit and inspection findings;
- Work in relation to the prevention of fraud and corruption and an allowance for the

investigation of any potential irregularities identified either from audit work or through the Council's whistle-blowing policy.

- Advice and support to ensure future safeguards when implementing new systems
- Value for Money work in relation to assessing the efficiency, economy and effectiveness of the Council's operations and recommending improvements as necessary.

Achievement of the Audit Plan is reported to the Overview and Scrutiny Board on a twice yearly basis and Corporate PIM quarterly. This report also includes an opinion and assurance about the system of internal control throughout the Council.

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

### **External Review**

**Comprehensive Performance Assessment (CPA)** is the way the Government assesses how we are performing overall as a council. Torbay Council like all local authorities is assessed annually by the Audit Commission and other bodies and given a rating from no stars to 4 stars. The most recent annual assessment was in February 2008 and despite tougher inspection standards we moved forward in a number of areas and were officially rated as a **'a 2 star council, which is improving well'**.

As part of the Government's CPA process, Torbay Council produced a **Value for Money Self Assessment** and a **Direction of Travel Statement**. The Value For Money Self Assessment demonstrates how we are achieving value for money including how current costs compare with other service providers. It also outlines how we compare and review our costs in relation to both performance and priority. The Direction of Travel Statement briefly outlines what has changed over the last year in terms of outcomes for the community and service users and the difference we are making to Torbay and its residents.

In our most recent Direction of Travel Statement the inspectors said Torbay Council was improving well and had significantly improved key services. The most recent **corporate assessment** of Torbay informed our star rating in February 2008 when the Council was rated as **'performing adequately'**. The report noted that the council is now a stronger community leader and services

for local people are improving, and highlighted that the council and its partner organisations have a strong vision for Torbay.

The Council scored three out of four for Use of Resources which demonstrates a commitment by the Council to manage its affairs wisely and satisfactorily. The assessment covered: -

- Financial reporting
- Financial management
- Financial standing
- Internal control
- Value for money

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

A review of Data Quality by the Council's External Auditors scored the Council as the equivalent of 3 out of 4 and did not identify any concerns over the management and recording of data. Similarly there were no areas at below expected minimum standards.

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

The Annual Audit Report for 2007 was very positive and did not identify any significant weaknesses in internal control arrangements. The report was reviewed by the Overview and Scrutiny Board and appropriate actions implemented as necessary.

### **Significant governance issues**

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

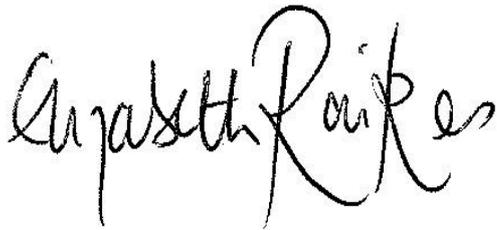
<b>Governance Issue</b>	<b>Action Planned</b>
(1) Payroll processing and administration and work force planning	The Council, in the light of recent internal audit reviews and other issues, is implementing a work programme within the Payroll Section that should ensure more emphasis is placed upon payroll processing, data accuracy and reliability, recovery of overpayments and collection of other income. The Council's external auditors are aware of and support this programme.
(2) Risk Management	Whilst operational risk management is embedded in a number of areas, this still needs to be Council wide with further action identified in respect of review and updating of departmental and operational risk registers, identification of key controls, identification of lead officers and local strategies, recording, review and reporting of operational risks. Further training of staff and Members will be undertaken during 2008 – 09 and the Strategic Risk register will be subject to regular reviews as part of the process to ensure it is a "live" document.
(3) Risk Sharing with Partners	The Council has introduced risk sharing protocols and arrangements in some partnerships but this needs extending to cover all the Council's partnership arrangements.

<p>(4) The existing governance arrangements could be strengthened.</p>	<p>The Council is re-creating a stand alone Audit Committee to deal with Governance issues including the need to ensure all Audit recommendations, both internal and external, are dealt with in an expeditions manner.</p> <p>In addition the Council is participating in the Audit Commission pilot on Corporate Governance and will be implementing action points arising from this pilot.</p> <p>The Council is also developing further processes for ensuring compliance with agreements and formal frameworks in respect of partnerships. Clear Governance and performance monitoring arrangements, although in place for significant partnerships such as the Care Trust need further development across all partnerships.</p> <p>The measurement of the environmental impact of policies, plans and decisions in line with developing best practice is also under development.</p>
<p>(5) Reconciliation of income and accuracy of transactions</p>	<p>Most areas of the Council fully comply with these requirements but in a limited number of areas some further staff training and support is required to re-establish the control environment.</p>
<p>(6) Register of Staff Interests</p>	<p>Some work needs to be undertaken to bring staff records up to date and HR are undertaking this exercise.</p>
<p>(7) Performance Management</p>	<p>Performance Improvement Meetings are encouraging a better understanding of performance and are stimulating interest in comparative information from other authorities but these roles are still maturing and have the potential to further improve.</p>

(8) Inventories and Asset Management	Many areas of the Council fully comply with these requirements but in some areas further staff training and support is required to re-establish the control environment.
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We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed



Elizabeth Raikes  
Chief Executive

Date: 13<sup>th</sup> June 2008

Signed



Nick Bye  
Mayor of Torbay

Date: 13<sup>th</sup> June 2008

## GLOSSARY OF TERMS

### A

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

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

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

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

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

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

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

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

Non-Operational Assets – held by the Council but not directly occupied, used or

consumed in the direct delivery of services, e.g. assets in the course of construction and surplus land.

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

## **B**

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

## **C**

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

**Capital Adjustment Account** - The Capital Adjustment Account represents the capital funding used to finance capital investment immediately from capital receipts and directly from revenue. It also contains amounts which in the past were required by statute to be set aside from capital receipts for the repayment of external loans. The Account is also used to compensate the General Fund Revenue Account for any excess of charges paid in respect of depreciation of assets over the statutory Minimum Revenue Provision which Council Taxpayers are required to bear.

**Capital Financing Requirement** - The Capital Financing Requirement shows the underlying need to borrow as a result of capital investment and resources set aside in the year. The CFR was introduced from 1 April 2004 by the Prudential Code for Capital Finance and reflects the movement in the Balance Sheet Accounts for Fixed Assets, Capital Financing Account, Government Grants Deferred and the Fixed Asset Restatement Account.

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

**Corporate and Democratic Core** – All activities which the Council engage in specifically because

they are elected, multi-purpose authorities.

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

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

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

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

## **D**

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

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

**Deferred Charge** – represents expenditure that qualifies as capital for the purposes of government controls, but does not result in the acquisition, creation or enhancement of a tangible fixed asset. Deferred charges include items such as improvement grants and grants to community organisations.

**Defined contribution / defined benefit schemes (Pension costs)** – There is an important distinction between defined contribution and defined benefit schemes in terms of pension accounting. The key features of each scheme are as follows:

Defined contribution:

- employer pays fixed amounts into the scheme and has no obligation to pay further amounts if the scheme does not have sufficient assets to pay employee benefits
- accounted for by charging employer contributions to revenue as they become

payable

Defined benefit:

- retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits
- accounted for by recognising liabilities as benefits are earned (ie employees work qualifying years of service), matching them with the organisations attributable share of the scheme's investments

**Depreciation** - Amounts set aside from the revenue account which represent the wearing out, consumption or loss of value of a fixed asset spread over the useful life of the asset.

## E

**Emoluments** – Employees expenses allowances.

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

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

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

## F

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

**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.

**Fixed Assets** – see Assets.

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

## **G**

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

## **H**

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

## **I**

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

**Intangible Assets** – see Assets

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

**Investment Properties** – land and buildings held only for investment potential.

## J

**Joint Arrangement** – An arrangement under which the participants engage in joint activities but do not create a legal entity because it would not carry on a trade or business of its own.

## L

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

## M

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

## N

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

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

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

## O

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

## P

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

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

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

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

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

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

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

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

**PWLB** – see Borrowing

## R

**Related Party Transaction** – Is the transfer of assets or liabilities, or the provision of services to or for a related party, irrespective of whether a charge is made.

**Relative Needs Formula (RNF)** - the notional amount of Torbay Council's "need" for funding that the DCLG has assessed Torbay Council as required to spend on its revenue activities within a financial year. Central Government funding from Revenue Support grant and National Non Domestic rates are based on this figure.

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

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

**Revaluation Reserve** – this reserve reflects the accumulated differences in a fixed assets current value compared to its historical cost. The balance on this account when introduced as at 1<sup>st</sup> April 2007 was set at zero.

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

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

## S

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

**Supported Borrowing** – the amount of Council Borrowing towards which the Government provides financial support through the annual Revenue Support Grant

## T

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

## U

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